Airtac International Group and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2018 and 2017 and Independent Auditors' Review Report

Note: The translation version is intended for reference only. If any inconsistency exists between the Chinese and English versions, the Chinese version shall govern.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Airtac International Group

We have reviewed the accompanying consolidated balance sheets of Airtac International Group (the "Company") and its subsidiaries (collectively referred to as the "Group") as of June 30, 2018 and 2017 and the related consolidated statements of comprehensive income for the six months ended June 30, 2018 and 2017, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2018 and 2017. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Engagements to Review Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

August 9, 2018

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	$ 2,624,776	8	$ 2,016,774	7	$ 2,299,301	9
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	-	-	-	-	7,517	-
Financial assets at amortized cost - current (Notes 4, 8 and 33)	16,618	-	-	-	-	-
Debt investments with no active market - current (Notes 4, 9 and 33)	-	-	6,067	-	5,962	-
Notes receivable (Notes 4, 5 and 10)	1,770,923	6	2,081,222	7	1,322,327	5
Trade receivables (Notes 4, 5, 10 and 32)	4,325,766	13	3,350,839	12	3,646,019	15
Other receivables (Note 4)	44,874	-	30,957	-	51,773	-
Current tax assets (Note 4)	31,704	-	28,052	-	39,872	-
Inventories (Notes 4, 5 and 11)	4,260,298	13	3,961,066	14	2,994,065	12
Other current assets (Notes 8, 15 and 16)	338,533	1	405,296	1	290,145	1
Total current assets	13,413,492	41	11,880,273	41	10,656,981	42
NON-CURRENT ASSETS						
Investments accounted for using equity method (Notes 4 and 13)	-	-	-	-	53,116	-
Property, plant and equipment (Notes 4, 14 and 33)	17,191,127	52	14,786,841	51	12,832,512	51
Other intangible assets (Note 4)	80,264	-	76,410	-	78,521	-
Deferred tax assets (Note 4)	456,465	1	370,049	1	330,389	1
Long-term prepayments for lease (Note 15)	500,771	2	479,312	2	472,643	2
Other non-current assets (Note 16)	1,314,513	4	1,312,707	5	853,809	4
Total non-current assets	19,543,140	59	17,025,319	59	14,620,990	58
TOTAL	$ 32,956,632	100	$ 28,905,592	100	$ 25,277,971	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 17)	$ 8,770,475	27	$ 7,704,455	27	$ 8,454,500	33
Short-term bills payable (Note 17)	350,000	1	300,000	1	100,000	-
Contract liabilities - current (Note 22)	33,939	-	-	-	-	-
Notes payable (Note 18)	205,257	1	268,372	1	207,706	1
Trade payables (Note 18)	610,644	2	792,677	3	702,436	3
Other payables (Note 19)	2,372,924	7	980,746	3	1,798,070	7
Current tax liabilities (Note 4)	276,926	1	362,459	1	286,472	1
Current portion of long-term loans (Notes 17 and 33)	500,000	1	437,268	2	437,268	2
Other current liabilities (Note 19)	123,790	-	126,737	-	144,209	1
Total current liabilities	13,243,955	40	10,972,714	38	12,130,661	48
NON-CURRENT LIABILITIES						
Long-term loans (Notes 17 and 33)	2,910,904	9	1,600,111	6	1,817,580	7
Deferred tax liabilities (Note 4)	460,837	1	370,750	1	321,288	1
Total non-current liabilities	3,371,741	10	1,970,861	7	2,138,868	8
Total liabilities	16,615,696	50	12,943,575	45	14,269,529	56
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 21)						
Share capital	1,890,250	6	1,890,250	6	1,790,250	7
Capital surplus	6,870,172	21	6,870,172	24	3,906,960	16
Retained earnings	7,923,796	24	7,610,806	26	5,922,630	23
Other equity	(353,090)	(1)	(419,109)	(1)	(621,816)	(2)
Total equity attributable to owners of the Company	16,331,128	50	15,952,119	55	10,998,024	44
NON-CONTROLLING INTERESTS	9,808	-	9,898	-	10,418	-
Total equity	16,340,936	50	15,962,017	55	11,008,442	44
TOTAL	$ 32,956,632	100	$ 28,905,592	100	$ 25,277,971	100

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
Sales (Notes 4, 22 and 32)	$ 4,560,944	100	$ 3,596,674	100	$ 8,170,808	100	$ 6,409,430	100
OPERATING COSTS								
Cost of goods sold (Notes 10 and 23)	(2,287,883)	(50)	(1,660,105)	(46)	(4,089,901)	(50)	(3,014,621)	(47)
GROSS PROFIT	2,273,061	50	1,936,569	54	4,080,907	50	3,394,809	53
OPERATING EXPENSES (Note 23)								
Selling and marketing expenses	(503,305)	(11)	(412,656)	(11)	(938,904)	(12)	(766,827)	(12)
General and administrative expenses	(247,403)	(5)	(213,211)	(6)	(487,501)	(6)	(409,786)	(6)
Research and development expenses	(111,958)	(3)	(101,962)	(3)	(210,190)	(3)	(189,702)	(3)
Expected credit loss	(12,503)	-	-	-	(24,531)	-	-	-
Total operating expenses	(875,169)	(19)	(727,829)	(20)	(1,661,126)	(21)	(1,366,315)	(21)
PROFIT FROM OPERATIONS	1,397,892	31	1,208,740	34	2,419,781	29	2,028,494	32
NON-OPERATING INCOME AND EXPENSES (Note 23)								
Other income	8,039	-	9,512	-	13,946	-	18,805	-
Other gains and losses	(221,608)	(5)	122,466	3	(104,544)	(1)	173,167	3
Finance costs	(54,532)	(1)	(43,739)	(1)	(100,030)	(1)	(86,815)	(2)
Total non-operating income and expenses	(268,101)	(6)	88,239	2	(190,628)	(2)	105,157	1
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	1,129,791	25	1,296,979	36	2,229,153	27	2,133,651	33
INCOME TAX EXPENSE (Notes 4 and 24)	(306,324)	(7)	(311,298)	(9)	(527,132)	(6)	(521,543)	(8)
NET PROFIT FOR THE PERIOD	823,467	18	985,681	27	1,702,021	21	1,612,108	25
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss:								
Exchange differences arising on translation to the presentation currency	(212,457)	(5)	212,235	6	80,554	1	(294,335)	(4)
Items that may be reclassified subsequently to profit or loss:								

(Continued)

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Exchange differences on translating foreign operations	19,234	1	(3,982)	-	(14,549)	-	24,509	-
Other comprehensive income for the period, net of income tax	(193,223)	(4)	208,253	6	66,005	1	(269,826)	(4)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 630,244	14	$ 1,193,934	33	$ 1,768,026	22	$ 1,342,282	21
NET PROFIT ATTRIBUTABLE TO:								
Owner of the Company	$ 823,498	18	$ 985,713	27	$ 1,702,097	21	$ 1,611,927	25
Non-controlling interests	(31)	-	(32)	-	(76)	-	181	-
	$ 823,467	18	$ 985,681	27	$ 1,702,021	21	$ 1,612,108	25
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owner of the Company	$ 630,262	14	$ 1,193,991	33	$ 1,768,116	22	$ 1,342,065	21
Non-controlling interests	(18)	-	(57)	-	(90)	-	217	-
	$ 630,244	14	$ 1,193,934	33	$ 1,768,026	22	$ 1,342,282	21
EARNINGS PER SHARE (Note 23)								
Basic	$ 4.36		$ 5.51		$ 9.01		$ 9.01	
Diluted	$ 4.36		$ 5.50		$ 8.99		$ 8.99	

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company									
	Share Capital			Retained Earnings		Other Equity				
	Shares (In Thousands)	Ordinary Shares	Capital Surplus (Note 21)	Unappropriated Earnings	Special Reserve	Exchange Differences on Translating Foreign Operations	Remeasurement of Defined Benefits Plans	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	179,025	$ 1,790,250	$ 3,906,960	$ 5,230,030	$ 64,929	$ (358,216)	$ 6,262	$ 10,640,215	$ 111,982	$ 10,752,197
Special reserve under Rule No. 1010012865 issued by the FSC	-	-	-	43,487	(43,487)	-	-	-	-	-
Appropriation of 2016 earnings Cash dividends distributed by the Company	-	-	-	(984,256)	-	-	-	(984,256)	-	(984,256)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	(101,781)	(101,781)
Net profit for the six months ended June 30, 2017	-	-	-	1,611,927	-	-	-	1,611,927	181	1,612,108
Other comprehensive income for the six months ended June 30, 2017, net of income tax	-	-	-	-	-	(269,862)	-	(269,862)	36	(269,826)
Total comprehensive income for the six months ended June 30, 2017	-	-	-	1,611,927	-	(269,862)	-	1,342,065	217	1,342,282
BALANCE AT JUNE 30, 2017	179,025	$ 1,790,250	$ 3,906,960	$ 5,901,188	$ 21,442	$ (628,078)	$ 6,262	$ 10,998,024	$ 10,418	$ 11,008,442
BALANCE AT JANUARY 1, 2018	189,025	$ 1,890,250	$ 6,870,172	$ 7,589,364	$ 21,442	$ (425,371)	$ 6,262	$ 15,952,119	$ 9,898	$ 15,962,017
Special reserve under Rule No. 1010012865 issued by the FSC	-	-	-	16,451	(16,451)	-	-	-	-	-
Appropriation of 2017 earnings Cash dividends distributed by the Company	-	-	-	(1,389,107)	-	-	-	(1,389,107)	-	(1,389,107)
Net profit for the six months ended June 30, 2018	-	-	-	1,702,097	-	-	-	1,702,097	(76)	1,702,021
Other comprehensive income for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	66,019	-	66,019	(14)	66,005
Total comprehensive income for the six months ended June 30, 2018	-	-	-	1,702,097	-	66,019	-	1,768,116	(90)	1,768,026
BALANCE AT JUNE 30, 2018	189,025	$ 1,890,250	$ 6,870,172	$ 7,918,805	$ 4,991	$ (359,352)	$ 6,262	$ 16,331,128	$ 9,808	$ 16,340,936

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,229,153	$ 2,133,651
Adjustments for:		
Depreciation expenses	513,175	381,337
Amortization expenses	7,945	7,433
Expected credit loss	24,531	-
Impairment loss recognized (reversal of impairment loss) on trade receivables	-	15,007
Net gain on financial assets at fair value through profit or loss	(1,186)	(19,022)
Finance costs	100,030	86,815
Interest income	(13,946)	(18,805)
Share of losses of associates	-	3,742
Loss (gain) on disposal of property, plant and equipment	140,513	1,266
Write-down of inventories	9,194	10,724
Net loss (gain) on foreign currency exchange	75,609	(55,588)
Amortization of prepayments for lease	8,227	1,620
Changes in operating assets and liabilities:		
Increase in notes receivable	326,325	(147,162)
Increase in trade receivables	(987,168)	(1,173,024)
(Increase) decrease in other receivables	(13,413)	(9,138)
Increase in inventories	(285,528)	(900,109)
(Increase) decrease in other current assets	33,504	(96,472)
Increase in net defined benefit assets	4	4
Decrease in contract liabilities	(22,248)	-
Increase in notes payable	(65,426)	103,123
Increase (decrease) in trade payables	(191,814)	260,063
Increase in other payables	(67,795)	21,113
Increase in other current liabilities	52,773	4,800
Cash generated from operations	1,872,459	611,378
Interest received	13,371	19,596
Interest paid	(94,685)	(85,435)
Income tax paid	(614,981)	(515,623)
Net cash generated from operating activities	1,176,164	29,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets designated as at fair value through profit or loss	-	(1,037,110)
Proceeds on sale of financial assets designated as at fair value through profit or loss	-	2,841,855
Proceeds from sale of financial assets designated as at fair value through profit and loss	1,192	-

(Continued)

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
Purchase of debt investments with no active market	-	(102)
Proceeds on sale of debt investments with no active market	-	2,682
Payments for property, plant and equipment	(2,883,809)	(1,654,425)
Proceeds from disposal of property, plant and equipment	24,460	7,895
Increase in refundable deposits	(3,472)	(4,493)
Decrease in refundable deposits	7,559	8,019
Acquisitions of intangible assets	(11,467)	(10,488)
Increase in prepayments for equipment	-	(391,183)
Increase in prepayments for lease	(986)	(33,499)
Net cash (used in) generated from investing activities	(2,866,523)	(270,849)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	999,679	900,785
Increase in short-term bills payable	50,000	100,000
Proceeds from long-term loans	3,409,540	-
Repayments of long-term loans	(2,040,584)	(218,634)
Net cash generated from financing activities	2,418,635	782,151
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(120,274)	(68,860)
NET INCREASE IN CASH AND CASH EQUIVALENTS	608,002	472,358
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,016,774	1,826,943
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 2,624,776	$ 2,299,301

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018and 2017

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

(Reviewed, Not Audited)

1. GENERAL

Airtac International Group (the “Company,” the Company and its subsidiaries are collectively referred to as the “Group”) was incorporated on September 16, 2009 in British Cayman Islands under reorganization mainly for the purpose of applying for listing on Taiwan Stock Exchange (“TWSE”). Admire Fame International Limited (“Admire Fame”), the Company’s parent company decided on December 23, 2009 with the approval of the shareholders to convert all stocks of Admire Fame to the stocks of the Company at the ratio of 1:1 (referred to as “stock swap” hereunder), and decided to dissolve and liquidate Admire Fame in 2010. Following the stock swap and reorganization, the Company becomes the holding company of a group of enterprises and engages in investment. The main businesses of other companies under the Group are set out in Note 12.

The Company’s stocks were listed on TWSE in December 2010.

The functional currency of the Company is RMB. For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in New Taiwan dollars since the Company’s stocks are listed on the Taiwan Stock Exchange.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and issued on August 9, 2018.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the FSC

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group’s accounting policies:

1) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

2) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2017, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group’s financial assets and financial liabilities as at January 1, 2017.

	Measurement Category		**Carrying Amount**	
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**
Cash and cash equivalents	Loans and receivables	Amortized cost	$2,016,774	$2,016,774
Time deposits with original maturity of more than 3 months	Loans and receivables	Amortized cost	6,067	6,067
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	5,463,018	5,463,018
Others	Loans and receivables	Amortized cost	11,255	11,255

	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	IFRS 9 Carrying Amount as of January 1, 2018
Financial assets amortized at cost	$ -	$ 17,322	$ 17,322
Add:Reclassification from loans and receivables (IAS 39)	17,322	(17,322)	-
	$ 17,322	$ -	$ 17,322

(1) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.

(2) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

3) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

4) IFRIC 22"Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group applied IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

Impact on assets, liabilities and equity for current period

	IAS 39 As Originally Stated	Adjustments Arising from Initial Application	Restated
Financial assets amortized at cost - current	$ -	$ 17,322	$ 17,322
Debt investments with no active market - current	6,067	(6,067)	-
Trade receivables	3,350,839	-	3,350,839
Other current assets			
Other financial assets	11,255	(11,255)	-
Total effect on assets	$ 3,368,161	$ -	$ 3,368,161
Total effect on equity	$ -	$ -	$ -

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securieies Issuers and IFRSs endorsed by the FSC for application from 2019

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

<u>The Group as lessee</u>

Upon initial application of IFRS 16, the Group will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets, except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

<u>The Group as lessor</u>

The Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

2) IFRIC 23 "Uncertainty Over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Group shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

3) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

4) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”
The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuingly assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
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 IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, or other regulations (please specify) and IAS 34 “Interim Financial Reporting” as endorsed by the FSC. Disclosure information included in the consolidated financial statements is less than those required in a complete set of annual financial statements.

b. Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Classification of Current and Non-current Assets and Liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;
2) Assets expected to be realized within twelve months after the reporting period; and
3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;
2) Liabilities due to be settled within twelve months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries, including structured entities).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 12 and Table 2 for the detailed information of subsidiaries (including the main business).

e. Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

f. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average.

g. Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the associate's profit or loss and other comprehensive income. The Group also recognizes the changes in the Group's share of equity of associates attributable to the Group.

Any cost of acquisition in excess of the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included in the carrying amount of the investment and is not amortized.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. Each part of a property, plant and equipment item that is significant to the total cost of the item is depreciated separately. The estimated useful lives, residual values and depreciation method are audited at the end of each reporting period, with any changes in estimates accounted for prospectively.

Any gain or loss on the disposal or retirement of a property, plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

i. Intangible Assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. The estimated useful life residual value, and amortization method are audited at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life. When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognizes an intangible asset at fair value upon initial recognition. The intangible asset is subsequently measured at cost less accumulated amortization and any accumulated impairment loss.

2) Derecognition of intangible assets

Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

j. Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units in case of the Group can use a reasonable and consistent basis of allocation, otherwise, corporate assets are allocated to the smallest group of cash-generating units.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis/settlement date basis.

a) Measurement category

<u>2018</u>
Financial assets are classified into the following categories: Financial assets at FVTPL and financial assets at amortized cost.

i. Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, note receivables at amortized cost, trade receivanles and other receibles, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

ii) Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

ii) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

ii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, and debt investments with no active market) system using the effective interest method at amortized cost amount after deduction of impairment loss is measured by the extent of the interest of short-term receivables are recognized non-materiality except in the case.

Cash equivalents include self-made within three months from the date of highly liquid investments which are readily convertible to known amounts of cash and very little risk of changes in value of deposits and commercial paper, used to meet short-term cash commitments.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), investments in debt instruments that are measured at FVTOCI, lease receivables, as well as contract assets.

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as notes and trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is 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.

For financial assets measured at amortized cost, 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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity Instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial Liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4) Derivative financial instruments

The Group enters into a derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. From 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

l. Revenue Recognition

2018

The Group identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

Revenue from sale of goods

Revenue from sale of goods comes from sales of pneumatic components. Sales of pneumatic components are recognized as revenue when the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivable is recognized concurrently.

2017

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale if the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The transaction costs incurred or to be incurred can be measured reliably.

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established and if it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.
Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

m. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor
Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred.

2) The Group as lessee
Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

n. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

o. Government Subsidies

Government subsidies are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government subsidies that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

p. Retirement Benefit Costs

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings/other equity and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events

3)Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

1)Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2)Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3)Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are audited on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables, investments in debt instruments and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note XX. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

6. CASH AND CASH EQUIVALENTS

	June 30, 2018	December 31, 2017	June 30, 2017
Cash on hand	$ 1,509	$ 1,666	$ 1,872
Checking accounts	116,758	157,940	46,831
Demand deposits	1,647,945	1,311,653	1,786,935
Cash equivalent			

	June 30, 2018	December 31, 2017	June 30, 2017
Time deposits with original maturities less than three months	858,564	545,515	463,663
	$ 2,624,776	$ 2,016,774	$ 2,299,301

The market rate intervals of cash in bank and bank overdrafts at the end of the reporting period were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Bank balance	0.001%~0.38%	0.001%~0.35%	0.001%~0.35%
Time deposits	1.10%~3.90%	0.90%~3.00%	0.90%~7.70%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets at FVTPL- current			
Financial assets held for trading			
Derivative financial assets (not under hedge accounting)			
Foreign exchange forward contracts	$ -	$ -	$ 7,517

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
June 30, 2017			
Foreign exchange forward contracts	RMB/NTD	2017.08.14	RMB 54,200/NTD 234,523

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities.

8. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	June 30, 2018
Current	
Time deposits with original maturity of more than 3 months (a)	$ 6,211
Restricted bank deposits	10,407
	$ 16,618

a. The interest rates for time deposits with original maturity of more than 3 months was 3.25% as at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39. Refer to Note 3 and Note 9 for information relating to their reclassification and comparative information for 2017.

b. Refer to Note 33 for information relating to investments in financial assets at amortized cost pledged as security.

9. DEBT INVESTMENTS WITH NO ACTIVE MARKET-2017

	December 31, 2017	June 30, 2017
Time deposits with original maturities more than three months (a)	$ 6,067	$ 5,962

a. The market interest rates of the time deposits with original maturity more than 3 months were 3.25% per annum as of December 31, 2017 and June 30, 2017.

b. Refer to Note 33 for information relating to debt investments with no active market pledged as security.

10. NOTES RECEIVABLE AND TRADE RECEIVABLES

	June 30, 2018	December 31, 2017	June 30, 2017
Notes receivable			
Notes receivable	$ 1,711,534	$ 2,081,771	$ 1,322,843
Less: Allowance for impairment loss	(611)	(549)	(516)
	$ 1,770,923	$ 2,081,222	$ 1,322,327
Trade receivables			
Trade receivables	$ 4,457,150	$ 3,461,363	$ 3,763,733
Less: Allowance for impairment loss	(131,384)	(110,524)	(117,714)
	$ 4,325,766	$ 3,350,839	$ 3,646,019

For the six months ended June 30, 2018

The average credit period of sales of goods was 30 to days. No interest was charged on trade receivables. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The movements of the loss allowance of note receivables were as follows:

	For the Six Months Ended June 30, 2018
Balance at January 1, per IAS39	$ 549
Add: Adjustment on initial application of IFRS 9	-
Balance at January 1, per IFRS 9	549
Add: Net remeasurement of loss allowance	62
Balance at June 30	$ 611

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

	Not Past Due	Less than 90 Days	91 to 180 Days	181 to 365 Days	366 to 547 Days	548 to 730 Days	Over 730 Days	Total
Expected credit loss rate	1.00%	4.80%	25.71%	38.41%	88.81%	97.78%	100%	
Gross carrying amount	$ 3,884,594	$ 403,692	$ 89,742	$ 44,982	$ 9,862	$ 6,490	$ 17,788	$ 4,457,150
Loss allowance (Lifetime ECL)	(38,754)	(19,384)	(23,076)	(17,277)	(8,759)	(6,346)	(17,788)	(131,384)
Amortized cost	$ 3,845,840	$ 384,308	$ 66,666	$ 27,705	$ 1,103	$ 144	$ -	$ 4,325,766

The movements of the loss allowance of trade receivables were as follows:

	For the Six Months Ended June 30, 2018
Balance at January 1, per IAS39	$ 110,524
Add: Adjustment on initial application of IFRS 9	-
Balance at January 1, per IFRS 9	110,524
Add: Net remeasurement of loss allowance (a)	24,469
Less: Amounts written off	(4,034)
Foreign exchange gains and losses	425
Balance at June 30	$ 131,384

a) The increase in loss allowance of $20,860 thousand resulted from origination of new trade receivables net of those settled of $995,787 thousand.

For the six months ended June 30, 2017

The average credit period on sales of goods was from 30 to 90 days. The Group recognized an allowance for impairment loss of 100% against all receivables over 730 days because historical experience had been that receivables that are past due beyond 730 days were not recoverable. Allowance for impairment loss were recognized against trade receivables between 30 days and 730 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

Before accepting any new customer, the Group will assess the potential customer's credit quality and set the credit line of the customer. Inspect credit line and rating of customers regularly.

The Group serves a large consumer base; therefore, the concentration of credit risk is limited.

There is no trade receivables balances that were past due at the end of the reporting period. Trade receivables that are assessed not to be impaired individually are further assessed for impairment on a collective basis.

Age of individually impaired trade receivables was as follow:

	December 31, 2017	June 30, 2017
0 ~90 days	$ 2,725,451	$ 3,072,741
91~180 days	599,324	533,252
181~365 days	89,589	101,843
366~730 days	25,216	32,067
Over than 730 days	21,783	23,830
	$ 3,461,363	$ 3,763,733

The above aging of trade receivables was presented based on the invoice date.

Movements in the allowance for impairment loss recognized on the notes receivable and trade receivables were as follows:

	For the Six Months Ended June 30, 2017
Balance at January 1	$ 115,833
Add: Allowance for impairment losses recognized on receivables	15,007
Less: Amounts written off as uncollectible	(9,579)
Effect of exchange rate changes	(3,031)
Balance at June 30	$ 118,230

11. INVENTORIES

	June 30, 2018	December 31, 2017	June 30, 2017
Raw materials	$1,199,376	$1,197,570	$ 917,427
Finished goods	2,019,139	1,821,742	1,354,310
Work in progress	1,041,783	941,754	722,328
	$4,260,298	$3,961,066	$2,994,065

As of June 30, 2018, December 31, 2017, and June 30, 2017, the allowance for inventory devaluation was $50,385 thousand, $49,732 thousand and $50,103 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the three months ended June

30, 2018 and 2017 and for the six months ended June 30, 2018 and 2017 were $2,287,883 thousand, $1,660,105 thousand, $4,089,901 thousand, and $3,014,621 thousand, respectively. The cost of goods sold included inventory write-downs were $4,927 thousand, $7,275 thousand, $9,194 thousand and $10,724 thousand, respectively.

The cost of goods sold included scraps for the three months ended March June 30, 2018 and 2017 and six months ended June 30, 2018 and 2017 were $33,296 thousand, $27,225 thousand, $70,592 thousand and $49,468 thousand, respectively.

12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements
The consolidated entities were as follows:

		% of Ownership		
Name of investing company	**Name of subsidiary**	**June 30, 2018**	**December 31, 2017**	**June 30, 2017**
Airtac International Group	Airtac Trading（Hong Kong）Limited	100	100	100
	Airtac Industrial（Hong Kong）Limited	100	100	100
	Instant Reach International Limited	100	100	100
	Airtac Holding（Singapore）Pte. Ltd.	100	100	100
Airtac Industrial（Hong Kong）Limited	Ningbo Airtac Automatic Industrial Co., Ltd.	100	100	100
	Guangdong Airtac Automatic Industrial Co., Ltd.	100	100	100
	Airtac（China）Co., Ltd.	100	100	100
	Airtac (Jiangsu) Automatic Co., Ltd.	100	100	100
Instant Reach International Limited	ATC（Italia） S.R.L.	100	100	100
	Airtac Industrial Co., Ltd.	69.44	69.44	69.44
Airtac Holding（Singapore） Pte. Ltd.	Airtac International（Singapore） Pte. Ltd.	100	100	100
	Airtac Co., Ltd.	100	100	100
	Airtac USA Corporation	100	100	100
Airtac International（Singapore）Pte. Ltd.	Airtac Industrial （Malaysia）Sdn. Bhd.	100	100	100
	Airtac Industrial (Thailand) Co., Ltd.	100	100	100
Airtac (China) Co., Ltd.	Guangdong Airtac Machinery Equipment Co., Ltd.	100	100	100
	Airtac (Tianjin) Technology Co., Ltd.	100	100	-

1) Airtac Trading (Hong Kong) Limited, Airtac Industrial (Hong Kong) Limited, Instant Reach International Limited and Airtac Holding (Singapore) Pte. Ltd. are primarily holding companies.

2) Ningbo Airtac Automatic Industrial Co., Ltd. was established on August 16, 2001 with an operation period of 50 years, and engages primarily in the production of pneumatic and hydraulic components, Actuator components, air preparation components, and pneumatic accessories. Guangdong Airtac Automatic Industrial Co., Ltd. (previously Guangzhou Airtac Automatic Industrial Co., Ltd.) was established on December 31, 2006 with an operation period of 50 years, and engages primarily in the production of pneumatic and hydraulic control components, Actuator components, air preparation components, and pneumatic accessories. Airtac (China) Co., Ltd. was established on May 6, 2011 with an operation period of 50 years, and engages primarily in the production, R&D, distribution, storage of industrial control components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services. Airtac (Jiangsu) Automatic Co., Ltd. primarily in the production, distribution, storage of industrial con was established on July 2, 2015 with an operation period of 50 years, and engages troll components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services.
3) Airtac Industrial Co., Ltd. was established on May 9, 1989 and engages primarily in the processing and sales of machinery and automated machines, manufacturing, processing and sales of hydraulic/pneumatic parts and components, and import and export trade of the aforementioned products. ATC (Italia) S.R.L. was established on June 10, 2008 and engages primarily in the production and sales of pneumatic and hydraulic control components.
4) Airtac International (Singapore) Pte. Ltd. was established on August 11, 2011 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac Co., Ltd. was established on April 18, 2013 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary compents. Airtac USA Corporation was established on November 4, 2016 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components.
5) Airtac Industrial (Malaysia) Sdn. Bhd. was established on July 16, 2013 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac Industrial (Thailand) Co., Ltd. was established on April 21, 2015 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components.
6) Guangdong Airtac Machinery Equipment Co., Ltd. was established on November 30, 2016 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac (Tianjin) Technology Co., Ltd. was established on September 20, 2017 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components, importing and exporting of the aforementioned products and support services.

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates

	June 30, 2018	December 31, 2017	June 30, 2017
Unlisted company			
AMA Tech Corp.	$ -	$ -	$ 53,116

As the end of the reporting period, the proportion of ownership and voting rights in associates held by the Group were as follows:

Name of Associate	Nature of Activities	Main Operating Place	June 30, 2018	December 31, 2017	June 30, 2017
AMA Tech Corp.	Research and develop of key-components for automatic equipment	Tucheng District, New Taipei City	-	-	20%

In July 2017, the Group sold 20% of its interest in AMA Tech Corp. to a third party for proceeds of $56,729 thousand (received cash in July 2017) and thus ceased to have significant influence.

Investments accounted for by the equity method during the period of the six months ended June 30, 2017 and 2016 was calculated based on the financial statements that have not been reviewed. Management believes there is no material impact on the equity method accounting from the financial statements of AMA Tech Corp. that have not been reviewed.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Bulidings	Machinery and Equipment	Transportation Equipment	Office facilities and other equipment	Property in construction	Total
Cost							
Balance at January 1, 2017	$ 890,359	$ 7,657,764	$ 4,473,165	$ 279,059	$ 1,081,607	$ 246,546	$14,628,500
Additions	-	18,750	771,536	55,904	85,415	722,836	1,654,441
Disposals	-	-	(7,260)	(22,891)	(65,885)	-	(96,036)
Reclassification	-	55,640	-	-	-	(55,804)	(164)
Effect of foreign currency exchange differences	-	(132,340)	(102,676)	(7,330)	(25,460)	(5,100)	(272,906)
Balance at June 30, 2017	$ 890,359	$ 7,599,814	$ 5,134,765	$ 304,742	$ 1,075,677	$ 908,478	$15,913,835
Accumulated depreciation							
Balance at January 1, 2017	$ -	$ 703,905	$ 1,387,966	$ 168,352	$ 599,708	$ -	$ 2,859,931
Depreciation expenses	-	90,830	194,683	22,027	73,797	-	381,337
Disposals	-	-	(3,330)	(18,042)	(65,503)	-	(86,875)
Effect of foreign currency exchange differences	-	(17,337)	(35,901)	(4,506)	(15,326)	-	(73,070)
Balance at June 30, 2017	$ -	$ 777,398	$ 1,543,418	$ 167,831	$ 592,676	$ -	$ 3,081,323
Carrying amount at June 30, 2017	$ 890,359	$ 6,822,416	$ 3,591,347	$ 136,911	$ 483,001	$ 908,478	$12,832,512
Cost							
Balance at January 1, 2018	$ 890,359	$ 7,713,473	$ 6,492,666	$ 308,317	$ 1,138,369	$ 1,679,728	$18,222,912
Additions	-	6,496	824,261	41,289	125,625	1,952,353	2,950,024
Disposals	-	(109,431)	(176,425)	(19,856)	(43,183)	-	(348,895)
Reclassification	-	831,995	764,139	20,130	2,127	(1,620,799)	(2,408)
Effect of foreign currency exchange differences	-	21,165	21,776	1,603	(7,386)	108,222	145,380
Balance at June 30, 2018	$ 890,359	$ 8,463,698	$ 7,926,417	$ 351,483	$ 1,215,552	$ 2,119,504	$20,967,013
Accumulated depreciation							

	Land	Bulidings	Machinery and Equipment	Transportation Equipment	Office facilities and other equipment	Property in construction	Total
Balance at January 1, 2018	$ -	$ 895,956	$ 1,740,939	$ 166,682	$ 632,494	$ -	$ 3,436,071
Depreciation expenses	-	100,406	305,318	24,933	82,518	-	513,175
Disposals	-	(28,364)	(97,684)	(17,791)	(40,083)	-	(183,922)
Reclassification	-	-	-	-	59	-	59
Effect of foreign currency exchange differences	-	8,913	(2,595)	(2,532)	6,717	-	10,503
Balance at June 30, 2018	$ -	$ 976,911	$ 1,945,978	$ 171,292	$ 681,705	$ -	$ 3,775,886
Carrying amount at January 1, 2018	$ 890,359	$ 6,817,517	$ 4,751,727	$ 141,635	$ 505,875	$ 1,679,728	$14,786,841
Carrying amount at June 30, 2018	$ 890,359	$ 7,486,787	$ 5,980,439	$ 180,191	$ 533,847	$ 2,119,504	$17,191,127

There was no impairment indication for property, plant and equipment. The Group did not recognize any impairment loss for the six months ended June 30, 2018 and 2017.

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful life of the asset:

Buildings and structures	
Main Buildings	40-50 years
Engineering systems	10-20 years
Machinery and equipment	4-20 years
Transportation equipment	2- 5 years
Office equipment and other equipments	2-15 years

Refer to Note 33 for the carrying amount of property, plant and equipment pledged by the Group to secure bank loans.

15. PREPAYMENTS FOR LEASE

	June 30, 2018	December 31, 2017	June 30, 2017
Current asset	$ 10,397	$ 3,309	$ 3,252
Non-current asset	$ 500,771	$ 479,312	$ 472,643

The prepayments for leases is applicable to the land use right located in Mainland China.

16. OTHER ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
Current			
Excess VAT paid	$ 181,519	$ 238,815	$ 178,811
Prepayments	71,638	42,091	40,073
Prepaid tax expenses	7,941	2,206	2,624
Prepaid expenses	67,030	75,031	53,698
Refundable deposits	-	32,548	-
Prepayments for lease	10,397	3,309	3,252
Other financial assets	-	11,255	11,670
Others	8	41	17
	$ 338,533	$ 405,296	$ 290,145
Non-current			
Prepayments for equipment	$ 1,284,835	$ 1,283,107	$ 821,662

	June 30, 2018	December 31, 2017	June 30, 2017
Refundable deposits	22,721	22,639	25,182
Refundable deposits	6,957	6,961	6,965
	$ 1,314,513	$ 1,312,707	$ 853,809

17. LOANS

(1) Short-term loans

	June 30, 2018	December 31, 2017	June 30, 2017
Unsecured loans			
Line of credit loans	$ 8,770,475	$ 7,704,455	$ 8,454,500

The range of interest rate on bank loans was 0.85%-3.04%, 0.85%-2.76%, and 1.00%-2.22% per annum as of June 30, 2018, December 31, 2017, and June 30, 2017, respectively.

(2) Short-term bills payable

	June 30, 2018	December 31, 2017	June 30, 2017
Commercial paper	$ 350,000	$ 300,000	$ 100,000

Outstanding short-term bills payable were as follows:

June 30, 2018

Promissory Institutions	Nominal amount	Discount amount	Carrying amount	Interest rate
International Bills	$ 200,000	$ -	$ 200,000	1.28%
Grand Bills	150,000	-	150,000	1.27%
	$ 350,000	$ -	$ 350,000	

December 31, 2017

Promissory Institutions	Nominal amount	Discount amount	Carrying amount	Interest rate
International Bills	$ 200,000	$ -	$ 200,000	1.31%
Grand Bills	100,000	-	100,000	1.27%
	$ 300,000	$ -	$ 300,000	

June 30, 2017

Promissory Institutions	Nominal amount	Discount amount	Carrying amount	Interest rate
Grand Bills	$ 100,000	$ -	$ 100,000	1.3%

The payables of the commercial paper have not been discounted, because the effect was not material.

(3) Long-term loans

	June 30, 2018	December 31, 2017	June 30, 2017
Secured loans			
Between March, 2018 and March 2023 (with interest rate of 1.79%)	$ 3,430,000	$ -	$ -
Between May, 2014 and May 2019 (with interest rate of 1.79%)	-	2,040,584	2,259,218
Total	3,430,000	2,040,584	2,259,218
Deduct: Current portion	(500,000)	(437,268)	(437,268)
Deduct: Syndication loan charge fee	(19,096)	(3,205)	(4,370)
Long-term loans	$ 2,910,904	$ 1,600,111	$ 1,817,580

In February, 2018, the Group signed a $6,000,000 thousand syndicated loan (the Loan) with Mega International Commercial Bank and 12 other participating banks. The Loan is composed by three kinds of loans. The first one is a secured loan in the amount of $2,200,000 thousand. This lona is to repay the existing bank loans. The Loan is effective in 3 months since February 12, 2018 and the undrawn facilities will be automatically cancelled as the effective term terminated. As of June 30, 2018, the Group draw all the amount of this loan. The second one is a secured loan in the amount of $3,300,000 thousand. This loan is to support the capital needs of Phase 2 factory and manufacturing productivity expansion plan in Tainan ShuGu Park. The Loan is effective in 18 months after the first draw and the undrawn facilities will be automatically cancelled as the effective term terminated. As of June 30, 2018, the Group draw in the amount of $730,000 thousand of this loan. The third one is an unsecured loan in the amount of $500,000 thousand. The purpose of this loan is for providing medium-term working capital. As of June 30, 2018, Group draw all the amount of this loan. If the Group meet all criteria in 5 years after the first draw, the Group could apply to Mega International Comercial Bank for extending the credit period for two years once in written application. The principal will be payable after two years from the first draw of the first and second loans in 7 semiannually installments. The first to the sixth installment will be calculated at a repayable amount equal to 7.5% of the outstanding principal prior to the day before the first installment and the 55% remainder principal will be repaid in full on the maturity date. Each credit of the third loan would be repaid in full on each maturity date. During the loan period, financial ratios of the Group comply with predetermined financial covenants since year 2018.

In April, 2014, the Group signed a $2,950,000 thousand syndicated loan (the Loan) with Mega International Commercial Bank and 7 other participating banks. The Loan is effective in 18 months after the first draw and the undrawn facilities will be automatically cancelled as the effective term terminated. The principal will be payable after two years from the first draw, May 15, 2014, in 7 semiannually installments. The first to the sixth installment will be calculated at a repayable amount equal to 7.5% of the outstanding principal prior to the day before the first installment and the 55% remainder principal will be repaid in full on the maturity date. Pursuant to the loan agreement, financial ratios must comply with predetermined financial covenants on December 31, 2014.

Refer to Note 33 for the information relating to the Group's assets pledged as collateral bank loans.

18. NOTES PAYABLE AND TRADE PAYABLES

The Group's average credit terms of purchasing goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within pre-agreed credit terms.

19. OTHER LIABILITIES

	June 30, 2018	December 31, 2017	June 30, 2017
Other payables			
Dividend payable	$ 1,389,107	$ -	$ 1,086,037
Payables for purchase of equipment	281,875	221,118	101,433
Salaries and bonus	616,804	692,901	563,064
Others	85,138	66,727	47,536
	$ 2,372,924	$ 980,746	$ 1,798,070
Other current liabilities			
Other taxes	$ 113,786	$ 61,488	$ 63,778
Account collected in advance	-	55,619	71,985
Others	10,004	9,630	8,446
	$ 123,790	$ 126,737	$ 144,209

20. RETIREMENT BENEFIT PLANS

Defined contribution plans

Airtac Industrial Co. of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiary in China and Italy are members of a state-managed retirement benefit plan operated by the government of China and Italy. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

21. EQUITY

a. Share capital

Ordinary shares

	June 30, 2018	December 31, 2017	June 30, 2017
Numbers of shares authorized (in thousands)	200,000	200,000	200,000
Shares authorized	$ 2,000,000	$ 2,000,000	$ 2,000,000
Number of shares issued and fully paid (in thousands)	189,025	189,025	179,025
Shares issued	$ 1,890,250	$ 1,890,250	$ 1,790,250

Fully paid ordinary shares, which have a par value of $10, carry one vote per share and carry a right to dividends.

On March 29, 2017 the Company's board of directors resolved to issue 10,000 thousand ordinary shares with a par value of NT$10, for consideration of NT$300 per share, which increases the share capital issued and fully paid to $1,890,250 thousand. On June 14, 2017, the above transaction was approved by FSC, and the subscription base date was determined at July 30, 2017 by the board of directors.

b. Capital surplus

	June 30, 2018	December 31, 2017	June 30, 2017
Used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)			
Issuance of ordinary shares	$ 6,123,279	$ 6,123,279	$ 3,160,768
Organization Reconstruction	704,640	704,640	704,640
Donations	41,552	41,552	41,552
	6,869,471	6,869,471	3,906,960
Used to offset a deficit only			
Void employee share option (2)	701	701	-
	$ 6,870,172	$ 6,870,172	$ 3,906,960

1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).
2) Please refer to Note 26.

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 10% of total dividends declared. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors, plesse refer to employees' compensation and remuneration of directors and supervisors in Note 23 f.

The Company appropriates or reverses a special reserve in accordance with Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC on April 6, 2012 and the directive entitled “Questions and Answers on Special Reserves Appropriated Following the Adoption of IFRSs”. Distributions can be made out of any subsequent reversal of the debit to other equity items.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on June 11, 2018 and May 16, 2017 were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Year 2017	**For Year 2016**	**For Year 2017**	**For Year 2016**
Special reserve reversed	$ 16,451	$ 43,487	$ -	$ -
Cash dividends	1,389,107	984,256	7.3	5.5

The shareholders' meeting approved to issue cash dividends from capital surplus of RMB $302,440 thousand, RMB $1.6 per share on June 11, 2018.

The shareholders' meeting approved to issue cash dividends from capital surplus of RMB $219,896 thousand, RMB $1.2283 (NT$5.5) per share on May 16, 2017. The actual amount converted and paid in New Taiwan Dollars rate is based on the exchange rate on July 4, 2017.

d. Other equity items

Exchange differences on translating foreign operations

	For the Six Months Ended June 30	
	2018	**2017**
Balance at January 1	($ 425,371)	($ 358,216)
Exchange differences on translating net assets of foreign operations	(14,474)	21,311
Exchange differences arising on translating the financial statements of foreign operations	80,493	(291,173)
Balance at June 30	($ 359,352)	($ 628,078)

The relating exchange differences arising from the net assets of the Group's foreign operations which are translated from the functional currency to expression currency (i.e. NTD) are recognized in exchange differences on translating foreign operations of other comprehensive income.

22. REVENUE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Revenue from contracts with customers				
Revenue from sale of goods	$ 4,560,944	$ 3,596,674	$ 8,170,808	$ 6,409,430

a. Contract information

Revenue from sale of goods

The Group sells pneumatic control components to the wholesale market and directly to customers both through its own retail outlets. Volume discount is offered to wholesaler whose purchase exceeds a specific threshold. The amount of discount and related revenue are estimated using the most likely amount. All other goods are sold at respective fixed amounts as agreed in the contracts.

b. Contract balances

	June 30, 2018
Contract liabilities	
Sale of goods	$ 33,939

23. NET PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS

Net income from continuing operations includes:

a. Other income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Interest income	$ 8,039	$ 9,512	$ 13,946	$ 18,805

b. Other gains and losses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Gain/(loss) on disposal of financial assets				
Net gain arising on financial assets designated as at FVTPL	$ -	$ -	$ 1,186	$ -
Net gain arising on financial assets designated as at FVTPL	-	10,770	-	19,022
Government subsidies	74,241	11,776	75,665	53,114
Net foreign exchange gains (losses)	(189,550)	104,527	(43,221)	105,100
Loss on disposal of property, plant and equipment	(107,313)	(2,047)	(140,513)	(1,266)
Share of the profit or loss of associates	-	(2,578)	-	(3,742)
Others	1,014	18	2,339	939
	($ 221,608)	$ 122,466	($ 104,544)	$ 173,167

c. Financial costs

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Interest on bank loans	$ 54,532	$ 43,739	$ 100,030	$ 86,815

Information about capitalized interest was as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Capitalized interest	$ 4,398	$ 1,123	$ 7,899	$ 1,123
Capitalization rate	1.53%	1.53%	1.57%	1.53%

d. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Property, plant and equipment	$ 269,074	$ 193,136	$ 513,175	$ 381,337
Intangible assets	3,993	3,746	7,945	7,433
	$ 273,067	$ 196,882	$ 521,120	$ 388,770
An analysis of deprecation by function				
Operating costs	$ 199,259	$ 129,907	$ 383,705	$ 254,215
Selling and marketing expenses	22,211	21,405	41,070	43,142
General and administration expenses	33,387	32,202	63,904	65,083
Research and development expenses	14,217	9,622	24,496	18,897
	$ 269,074	$ 193,136	$ 513,175	$ 381,337
An analysis of amortization by function				
Operating costs	$ 193	$ 187	$ 387	$ 374
Selling and marketing expenses	274	245	546	496
General and administration expenses	2,431	2,291	4,836	4,465
Research and development expenses	1,095	1,023	2,176	2,098
	$ 3,993	$ 3,746	$ 7,945	$ 7,433

e. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Post-employment benefits				
Defined contribution plans	$ 42,828	$ 48,678	$ 100,792	$ 91,326
Defined benefit plans	2	2	4	4

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
	48,830	48,680	100,796	91,330
Other employee benefits	1,061,693	872,323	2,036,738	1,586,230
Total employee benefits expense	$1,104,523	$ 921,003	$2,137,534	$1,677,560
An analysis of employee benefits expense by function				
Operating costs	$ 570,932	$ 487,900	$1,131,081	$ 860,790
Operating expenses	533,591	433,103	1,006,453	816,770
	$1,104,523	$ 921,003	$2,137,534	$1,677,560

f. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 2% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the three months ended June 30, 2018 and 2017, and six months ended June 30, 2018 and 2017, the employees' compensation and the remuneration of directors and supervisors were as follows:

Accrual rate

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Employees' compensation	2.0%	2.5%	2.0%	2.5%

Amount

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Bonus to employees	$ 23,202	$ 32,224	$ 45,842	$ 53,252

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

The appropriations of employees' compensation for 2016 and 2015 having been resolved by the board of directors on February 24, 2017 and February 25, 2016, respectively, were as below:

	For the Year Ended December 31	
	2017	2016
Employees' compensation in cash	$ 87,828	$ 88,849

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2017 and 2016.

Information on the bonus to employees, directors and supervisors approved in shareholders' meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gain or loss on foreign currency exchange

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Foreign exchange gains	$ 158,583	$ 282,085	$ 440,538	$ 460,595
Foreign exchange losses	(348,133)	(177,558)	(483,759)	(355,495)
	($ 189,550)	$ 104,527	($ 43,221)	$ 105,100

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense were as follow:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Current tax				
In respect of the current period	$ 285,225	$ 281,424	$ 512,896	$ 489,348
Adjustments for prior periods	5,459	2,297	10,531	2,297
Income tax expense recognized in profit or loss	290,684	283,721	523,427	491,645
Deferred tax				
In respect of the current period	15,640	27,577	3,705	29,898
Income tax expense recognized in profit or loss	$ 306,324	$ 311,298	$ 527,132	$ 521,543

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax assessments

The income tax returns of the Company and subsidiaries, except Instant Reach International Limited are exempted from income tax, Airtac International Group Taiwan Branch, and Airtac Industrial Co., Ltd have been respectively examined and cleared by the ROC tax authority through 2015. The other subsidiaries have also filed business income tax returns by the deadlines set by the local governments.

25. EARNINGS PER SHARE

The weighted average number of shares outstanding used for the earnings per share computation were as follows:

Net profit for the period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Profit for the period attributable to owners of the Company	$ 823,498	$ 985,713	$1,702,097	$1,611,927
Earnings used in the computation of basic earnings per share	823,498	985,713	1,702,097	1,611,927
Effect of dilutive potential ordinary shares	-	-	-	-
Earnings used in the computation of diluted earnings per share	$ 823,498	$ 985,713	$1,702,097	$1,611,927

Weighted average number of ordinary shares outstanding (in thousand shares)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	189,025	179,025	189,025	179,025
Effect of dilutive potential ordinary shares:				
Employee dividends	156	214	208	331
Weighted average number of ordinary shares used in computation of dilutive earnings per share	189,181	179,239	189,233	179,356

If the Company offered to settle bonuses paid to employees in cash or shares, the Company assumed the entire amount of the bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

26. SHARE-BASED PAYMENT ARRANEMENTS

The Company issued new ordinary shares in July, 2017. The Company reserved 1,000 thousand of the newly issued shares for empolyees to subscribe. Options were priced using a Black-Scholes pricing model.

Information on employee share options was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Options granted	1,000	$300
Options exercised	(900)	300
Options expired	(10)	300
	-	
Weighted-average fair value of options granted	$ 70.09	

All outstanding vested share options were measured at their market-based measure at the acquisition date. Options were priced using a Black-Scholes pricing model. The inputs into the model were as follows:

	Grant Date July 14, 2017
Grant-date share price ($)	$370
Exercise price ($)	$300
Expected volatility	26.51%
Expected life	27 days
Risk-free interest rate	0.36%

27. GOVERNMENT SUBSIDIES

The government subsidies indicate the governmental subsidies received by subsidiaries in Mainland China from the local finance bureau.

28. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which were not reflected in the consolidated statement of cash flows during the period of the six months ended June 30, 2018 and 2017.

a. The Group acquired property, plant and equipment with an aggregate fair value of $2,950,024 thousand during the period of the six months ended June 30, 2018. Other payable increase $60,010 thousand and prepayments for equipment decrease in $6,205 thoudsnd in total. The cash paid of the Group for acquision of property, plant and equipment was $2,883,809 thousand (see the Note 14)
b. The Group acquired land use right with an aggregate fair value of $33,862 thousand during the period of the six months ended June 30, 2018. Refundable deposits $32,876 thousand in total to acquire land use right. The cash paid of the Group for prepayments for lease was $986 thousand.

c. The Group acquired property, plant and equipment with an aggregate fair value of $1,654,441 thousand during the period of the six months ended June 30, 2017. Other payable increase $16 thousand in total. The cash paid of the Group for acquision of property, plant and equipment was $1,654,425 thousand (see the Note 14).

d. The cash dividends approved in the shareholders' meetings were not yet distributed as of Jun 30, 2018 and June 30, 2017 (refer to Notes 19 and 21, respectively)

29. OPERATING LEASE AGREEMENTS

The Group as lessee

Operating leases relate to purpose of office leasing with lease terms between 1 and 10 years. The Group does not have a bargain purchase option to acquire the purpose of office leasing at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Not later than one year	$ 45,139	$ 40,434	$ 51,953
Later than one year and not later than five years	63,818	43,986	60,170
Later than five years	518	534	1,393
	$ 109,475	$ 84,954	$ 113,516

30. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of net debt borrowings offset by cash and cash equivalents and equity of the Group comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on a semi-annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

31. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The management of the Group considers that the carrying amounts of financial assets and liabilities not measured at fair value are close to the fair value.

b. Fair value of financial instruments

1) Fair value hierarchy

June 30, 2017: None

December 31, 2016: None

June 30, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Structured deposits	$ -	$ 7,517	$ -	$ 7,517

There were no transfers between the level 1 and level 2 during the period of the six months ended June 30, 2018 and 2017.

2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow: Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

c. Categories of financial instruments

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets			
Financial assets at FVTPL			
Designated as at FVTPL	$ -	$ -	$ 7,517
Loans and receivables (Note 1)	-	7,497,114	7,337,052
Financial assets at amortized cost (Note 2)	8,782,957	-	-
Financial liabilities			
Measured at amortized cost (Note 3)	15,103,400	11,390,728	12,954,496

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, trade receivables, and other receivables.

Note 2: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, debt investments, and notes receivable and trade receivables.

Note 3: The balances included financial liabilities measured at amortization cost, which comprise short-term loans, short-term bills payables, notes payable, trade payables, other payables, and long-term loans (including current portion).

d.Financial risk management objectives and policies

The Group's main financial instruments include cash and cash equivalents, notes and trade receivables, other receivables, short-term bills payable, notes and trade payables, other payables and loans. The finance department of the Group provides service to business departments, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1. Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see Note (1) below) and interest rates (see Note (2) below).

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

(1) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 31.

Sensitivity analysis

The Group was mainly exposed to the currency USD.

The following table details the Group's sensitivity to a 1% increase and decrease in the functional currency against the USD. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated with the functional currency strengthen 1% against the USD. For a 1% weakening of the functional currency against the USD, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

	USD Impact	
	For the Six Months Ended June 30	
	2018	2017
Profit and losses	$ 29,878	$ 43,283

This was mainly attributable to the exposure outstanding on USD receivables and payables, which were not hedged at the end of the reporting period.

(2) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow loans at both fixed and floating interest rates. To manage this risk, the Group maintains an appropriate mix of fixed and floating rate borrowings. The Group periodically evaluates hedging activities, view it with interest and consistent with the established risk appetite, using hedging strategies to ensure the most cost-effective.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Fair value risk			
-Financial assets	$ 864,775	$ 551,582	$ 469,625
-Financial liabilities	12,531,379	10,041,834	10,809,348
Cash flow risk			
-Financial assets	1,658,352	1,322,908	1,798,605

Sensitiveness analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher or lower and all other variables were held constant, the Group's pre-tax profit for the six months ended June 30, 2018 and 2017 would increase or decrease by $8,292 thousand and $8,993 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and borrowings.

2. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are audited and approved by the risk management committee annually.

The Group did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 1% of gross monetary assets at any time during the six months ended June 30, 2018 and 2017.

The Group's concentration of credit risk by geographical locations was mainly in Mainland China, which accounted for 92.57%, 90.80%, and 91.94% of the total trade receivables as of June 30, 2018, December 31, 2017, and June 30, 2017, respectively.

3. Liquidity

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank loans as a significant source of liquidity. As of June 30, 2018, December 31, 2017, and June 30, 2017, the Group had available unutilized short-term bank loan facilities set out in (2) below.

(1) Liquidity and interest rate risk tables for non-derivative financial instruments

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

June 30, 2018

	On Demand or Less than 3 Month	**3 Months to 1 Year**	**1-5 Years**	**5+ Years**
Non-derivative financial liabilities				

	On Demand or Less than 3 Month	3 Months to 1 Year	1-5 Years	5+ Years
Non-interest bearing	$ 2,906,950	$ 281,875	$ -	$ -
Fixed interest rate liabilities	8,734,165	476,648	3,596,493	-
	$ 11,641,115	$ 758,523	$ 3,596,493	$ -

December 31, 2017

	On Demand or Less than 3 Month	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities				
Non-interest bearing	$ 1,820,677	$ 221,118	$ -	$ -
Fixed interest rate liabilities	7,571,612	917,195	1,615,271	-
	$ 9,392,289	$ 1,138,313	$ 1,615,271	$ -

June 30, 2017

	On Demand or Less than 3 Month	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial liabilities				
Non-interest bearing	$ 2,606,779	$ 101,433	$ -	$ -
Fixed interest rate liabilities	7,253,037	1,789,443	1,845,511	-
	$ 9,859,816	$ 1,890,876	$ 1,845,511	$ -

(2) Liquidity and interest rate risk tables for derivative financial instruments

The following table detailed the Group's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed was determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

June 30, 2018: None

December 31, 2017: None

June 30, 2017

	On Demand or Less than 3 Month	3 Months to 1 Year	1-5 Years	5+ Years
Gross settled				
Foreign exchange forward contracts				
Inflows	$ 243,141	$ -	$ -	$ -
Outflows	(234,523)	-	-	-
	$ 8,618	$ -	$ -	$ -

(3) Financing facilities

	June 30, 2017	December 31, 2016	June 30, 2016
Unsecured bank loans （re-examined annually）			
-Amounts used	$ 9,620,475	$ 8,004,455	$ 8,554,500

	June 30, 2017	December 31, 2016	June 30, 2016
-Amounts unused	3,849,067	2,608,699	1,734,819
	$ 13,469,542	$ 10,613,154	$ 10,289,319
Secured bank loans			
-Amounts used	$ 2,930,000	$ 2,040,584	$ 2,259,218
-Amounts unused	2,570,000	-	-
	$ 5,500,000	$ 2,040,584	$ 2,259,218

32. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions, revenue and expenses between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(1) Name and relation

Name	Relation
Behealthy Electronic Technology Co., Ltd.	Substantive related parties (the responsible person of the party is the director of the Group)

(2) Operating transaction

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Sales of goods				
Other related parties (the responsible person of the party is the director of the Group)	$ 87	$ 137	$ 195	$ 219

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties.

The trade receivables from related parties on the date of balance sheet were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Trade Receivables			
Other related parties (the responsible person of the party is the director of the Group)	$ 75	$ -	$ -

No expense was recognized for the six months ended June 30, 2017 and 2016 for allowance for impaired trade receivables with respect to the amounts owed by related parties.

(3) Compensation of key management personnel

The compensation to directors and other key management personnel were as follows:

T	For the Three months ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Short-term employee benefits	$ 37,876	$ 40,005	$ 57,694	$ 72,446

The compensation to directors and other key management personnel were determined by the Remuneration Committee of Airtac in accordance with the individual performance and the market trends.

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank loans and the electricity tariff guarantee:

	June 30, 2018	December 31, 2017	June 30, 2017
Pledge deposits (classified as financial assets at amortized cost)	$ 6,211	$ -	$ -
Pledge deposits (classified as debt investment with no active market)	-	6,067	5,962
Restricted bank deposits (classified as financial assets at amortized cost)	10,470	-	-
Restricted bank deposits (classified as other financial assets)	-	11,255	11,670
Land	890,359	890,359	890,359
Buildings, net	2,712,099	2,718,257	2,730,385
	$ 3,619,076	$ 3,625,938	$ 3,638,376

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Acquisition of property, plant and equipment	$ 3,046,250	$ 2,605,340	$ 1,956,147

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

June 30, 2018

	Foreign currency	Exchange rate	Carrying amount
Financial assets			
Monetary items			
USD	$ 2,963	30.39(USD: NTD)	$ 90,057
USD	27,893	6.62(USD: RMB)	847,664

	Foreign currency	Exchange rate	Carrying amount
RMB	577,582	4.59(RMB: NTD)	2,652,833
			$ 3,590,554
Financial liabilities			
Monetary items			
USD	$ 306	30.39(USD: NTD)	$ 9,301
USD	128,864	6.62(USD: RMB)	3,916,187
RMB	34,671	4.59(RMB: NTD)	159,244
			$ 4,084,732

December 31, 2017

	Foreign currency	Exchange rate	Carrying amount
Financial assets			
Monetary items			
USD	$ 2,511	29.83 (USD: NTD)	$ 74,911
USD	24,879	6.53 (USD: RMB)	742,113
RMB	347,964	4.57 (RMB: NTD)	1,588,454
			$ 2,405,478
Financial liabilities			
Monetary items			
USD	$ 262	29.83 (USD: NTD)	$ 7,806
USD	124,996	6.53 (USD: RMB)	3,728,458
RMB	32,516	4.57 (RMB: NTD)	148,435
			$ 3,884,699

June 30, 2017

	Foreign currency	Exchange rate	Carrying amount
Financial assets			
Monetary items			
USD	$ 1,508	30.39(USD: NTD)	$ 45,817
USD	24,460	6.77(USD: RMB)	743,324
RMB	221,398	4.49(RMB: NTD)	993,190
			$ 1,782,331
Financial liabilities			
Monetary items			
USD	$ 144	30.39(USD: NTD)	$ 4,375
USD	168,248	6.77(USD: RMB)	5,113,050
RMB	31,140	4.49(RMB: NTD)	139,694
			$ 5,257,119

For the three months and six months ended June 30, 2018 and 2017, realized and unrealized net foreign exchange gains (losses) were ($189,550) thousand, $104,527 thousand, ($43,211) thousand, and $105,100 thousand respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

36. DISCLOSED ITEMS

(1) Information about significant transactions and (2) investees:

1. Loans provided to other parties (Table 1)

2. Endorsements/guarantees given to other parties (None)

3. Marketable securities held (excluding investments in subsidiaries, associates and joint controlled entities) (None)

4. Purchases or sales of the same marketable securities amounting to at least NT$300 million or 20% of the paid-in capital. (None)

5. Acquisition of real estate at costs of at least NT $300 million or 20% of the paid-in capital (Table 3)

6. Disposal of real estate at prices of at least NT$300 million or 20% of the paid-in capital (None)

7. Purchases or sales with related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 4)

8. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital (Table 5)

9. Derivative transactions (Note 7)

10. Intercompany relationships and significant intercompany transactions (Table 7)

11. Information for investees (Table 2)

(3) Information for investments in Mainland China

1. Information for any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 6)

2. Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Tables 1 and 7)

   a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.

   b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

   c) The amount of property transactions and the amount of the resultant gains or losses.

d) The balance of negotiable instrument endorsements/guarantees or pledges of collateral at the end of the period and the purposes.

e) The highest balance, the ending balance, the interest rate range, and the total of current interest with respect to loans provided.

f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

37. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 “Operating Segments” were as follows:

Pneumatic components - direct sales
- distributors

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Revenues		Profit Before Tax	
	For the Six Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Pneumatic components				
-Direct sales	$6,134,874	$4,942,329	$2,182,871	$1,880,157
-Distributors	2,035,934	1,467,101	724,411	558,123
Total amounts of continuing operations	$8,170,808	$6,409,430	2,907,282	2,438,280
Share of profits of associates accounted for using the equity method			-	(3,742)
Interest income			13,946	18,805
Gain (Loss) on disposal of property, plant and equipment			(140,513)	(1,266)
Net exchange gains (losses)			(43,221)	105,100
Net gain arising on financial assets designated as at FVTPL			1,186	19,022
HQ admin. cost and directors’ salaries			(409,497)	(355,733)
Finance costs			(100,030)	(86,815)
Profit before income tax from continuing operations			$2,229,153	$2,133,651

The segment revenues were accounted for the transactions with external customers. No inter-segment sales occurred for the six months ended June 30, 2018 and 2017.

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, gain recognized on the disposal of interest in former associates, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of financial instruments, exchange gain or loss, valuation gain or loss on financial instruments, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets

	June 30, 2018	December 31, 2017	June 30, 2017
Segment assets			
Pneumatic components			
-Direct sales	$ 24,378,498	$ 21,498,422	$ 19,163,834
-Distributors	8,089,965	7,009,069	5,690,760
Total segment total assets	32,468,463	28,507,491	24,854,594
Unallocated assets	488,169	398,101	423,377
Consolidated total assets	$ 32,956,632	$ 28,905,592	$ 25,277,971

For the purpose of monitoring segment performance and allocating resources between segments:

All assets were allocated to reportable segments other than interests in associates accounted for using the equity method, other financial assets, and current and deferred tax assets. Goodwill was allocated to reportable segments. Assets used jointly by reportable segments were allocated on the basis of the revenues earned by individual reportable segments.

TABLE 1

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

LOANS PROVIDED TO OTHER PARTIES
FOR SIX MONTHS ENDED JUNE 30, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies, Unless Specified Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period (Note1)	Ending Balance (Note1)	Actual Borrowing Amount	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limits	Note
													Item	Value			
0	Airtac International Group	ATC (Italia) S.R.L	Other receivables	Yes	EUR 4,000 (NTD 141,600)	EUR 3,000 (NTD 106,200)	EUR 2,300 (NTD 81,420)	-	Short-term financing needs	$ -	Revolving fund	$ -	-	-	$ 6,532,451	$ 6,532,451	Note 2
0	Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	Other receivables	Yes	USD 30,000 (NTD 911,700)	USD 25,000 (NTD 759,750)	USD 14,300 (NTD 434,577)	3.26%- 3.78%	Short-term financing needs	-	Revolving fund	-	-	-	6,532,451	6,532,451	Note 2
0	Airtac International Group	Airtac International （Singapore）Pte. Ltd.	Other receivables	Yes	USD 9,000 (NTD 273,510)	USD 5,000 (NTD 151,950)	USD 4,000 (NTD 121,560)	-	Short-term financing needs	-	Revolving fund	-	-	-	6,532,451	6,532,451	Note 2
0	Airtac International Group	Airtac Co., Ltd	Other receivables	Yes	USD 8,500 (NTD 258,315)	USD 4,500 (NTD 136,755)	USD 3,500 (NTD 106,365)	-	Short-term financing needs	-	Revolving fund	-	-	-	6,532,451	6,532,451	Note 2
0	Airtac International Group	Airtac Industrial （Malaysia）Sdn. Bhd.	Other receivables	Yes	USD 1,000 (NTD 30,390)	USD 1,000 (NTD 30,390)	USD 620 (NTD 18,842)	-	Short-term financing needs	-	Revolving fund	-	-	-	6,532,451	6,532,451	Note 2

Note 1: Conversion to NTD used the spot exchange rate on June 30, 2018, that is, 1USD＝30.3900, 1EUR＝35.4001.

Note 2: According to Company's Loans to Others Procedure, the limits on loans provided to other parties is 40% of the Group's net worth at the end of the period.

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INFORMATION FOR INVESTEES
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies, Unless Specified Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount June 30, 2018 (Note1)	Original Investment Amount December 31, 2017 (Note1)	June 30, 2018 Shares	June 30, 2018 %	June 30, 2018 Carrying Amount	Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
Airtac International Group	Airtac Industrial (Hong Kong) Limited	Hong Kong	General investment	USD 87,500 RMB 222,000 (NTD 3,678,771)	USD 87,500 RMB 222,000 (NTD 3,678,771)	121,155,302	100	$ 18,372,694	$ 1,847,564	$ 1,847,564	2
	Airtac Trading (Hong Kong) Limited	Hong Kong	General investment	USD - (NTD -)	USD - (NTD -)	7,000,000	100	2,909	(13)	(13)	2
	Instant Reach International Limited	British Virgin Island	General investment	USD 2,283 EUR 1,000 RMB 17,500 (NTD 185,158)	USD 2,283 EUR 1,000 RMB 17,500 (NTD 185,158)	1	100	140,671	12,700	12,700	2
	Airtac Holding (Singapore) Pte. Ltd.	Singapore	General investment	USD 15,000 (NTD 455,850)	USD 15,000 (NTD 455,850)	15,000,000	100	307,591	(9,583)	(9,583)	2
Instant Reach International Limited	Airtac Industrial Co., Ltd	Tucheng District, New Taipei City	Processing, sales and import/export of machines and components	NTD 54,581	NTD 54,581	69,435	69.44	26,465	(578)	-	
	ATC (Italia) S.R.L	Via Mauro Macchi n.27, 20124 Milano (MI)	Production and sales of pneumatic and hydraulic control components	EUR 4,000 (NTD 141,600)	EUR 4,000 (NTD 141,600)	4,000,000	100	88,011	13,028	-	
Airtac Holding (Singapore) Pte. Ltd.	Airtac International (Singapore) Pte. Ltd.	Singapore	Production and sales of pneumatic control components and accessories	USD 12,500 (NTD 379,875)	USD 12,500 (NTD 379,875)	12,500,000	100	321,078	6,741	-	
	Airtac CO., Ltd.	Japan	Production and sales of pneumatic control components and accessories	JPY 98,000 (NTD 27,009)	JPY 98,000 (NTD 27,009)	2,000	100	(39,430)	(6,622)	-	
	Airtac USA Corporation	USA	Production and sales of pneumatic control components and accessories	USD 1,000 (NTD 30,390)	USD 1,000 (NTD 30,390)	1,500	100	17,194	(9,660)	-	
Airtac International (Singapore) Pte. Ltd.	Airtac Industrial (Malaysia) Sdn. Bhd.	Malaysia	Production and sales of pneumatic control components and accessories	MYR 1,000 (NTD 7,265)	MYR 1,000 (NTD 7,265)	1,000,000	100	(9,952)	(2,983)	-	
	Airtac Industrial Co., Ltd.	Thailand	Production and sales of pneumatic control components and accessories	THB 100,000 (NTD 92,260)	THB 100,000 (NTD 92,260)	1,000,000	100	81,712	(647)	-	

Note1：Conversion to NTD used the spot exchange rate on June 30, 2018, that is, 1 USD＝30.3900 NTD, 1 EUR＝35.4001NTD, 1 JPY＝0.2756NTD, 1 RMB= 4.5930 NTD, 1 MYR＝7.2649NTD, 1THB=0.9226NTD.

Note2：The amount was eliminated upon consolidation.

Note3：Please refer to Table 6 for information on investment in mainland China.

TABLE 3

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

ACQUISITION OF REAL ESTATE AT COSTS OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Acquiring company	Title of property	Transaction date or occurrence date	Transaction amount	Payment	Counterparty	Relationship	Where the counterparty is a related party, the previous transfer information				Pricing reference and basis	Purpose of acquisition and use	Other agreements
							Owner	Relationship with issuer	Date of transfer	Amount			
Ningbo Airtac Automatic Industrial Co., Ltd	Prepayment for lease	2016.10.15-2018.06.30	$ 1,256,858	Fully paid up	Self-building	-	-	-	-	$ -	N/A	Manufacturing and development purpose	
Airtac International Group	Plant	2017.02.08-2018.06.30	1,266,926	On progress of completion	Self-building	-	-	-	-	$ -	N/A	Manufacturing and development purpose	

TABLE 4

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

PURCHASES OR SALES WITH RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Purchaser (Seller)	Counterparty	Relationship	Transaction				Non-arm's Length Transaction and Reasons		Notes/Trade Payables/ Receivable		Note
			Purchase (Sale)	Amount	% of Total	Payment Term	Unit Price (Note)	Payment Terms (Note)	Balance	% to Total	
Ningbo Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	Sales	$ 3,850,181	88	T/T 120 days	$ -	-	$ 1,837,944	86	
	Airtac International Group	The parent company	Sales	170,914	4	T/T 120 days	-	-	126,717	6	
	Guangdong Airtac Automatic Industrial Co., Ltd	The same parent company	Sales	170,868	4	T/T 120 days	-	-	26,571	1	
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	Sales	430,297	32	T/T 120 days	-	-	361,328	33	
	Guangdong Airtac Machinery Equipment Co., Ltd.	The same parent company	Sales	426,678	32	T/T 120 days	-	-	379,735	35	
	Airtac (Jiangsu) Automatic Co., Ltd.	The same parent company	Sales	336,208	25	T/T 120 days	-	-	261,255	24	
Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	Subsidary	Sales	415,828	34	T/T 120 days	-	-	788,455	48	
	Airtac (China) Co., Ltd.	Subsidary	Sales	432,646	35	T/T 120 days	-	-	471,580	29	
Airtac (China) Co., Ltd.	Airtac (Jiangsu) Automatic Co., Ltd.	The same parent company	Sales	1,389,668	23	T/T 120 days	-	-	587,541	19	
	Guangdong Airtac Machinery Equipment Co., Ltd.	Subsidary	Sales	1,626,600	27	T/T 120 days	-	-	898,440	29	
	Airtac (Tianjin) Technology Co., Ltd.	Subsidary	Sales	315,502	5	T/T 120 days	-	-	179,829	6	
Guangdong Airtac Machinery Equipment Co., Ltd.	Airtac (China) Co., Ltd.	The parent company	Sales	133,496	5	T/T 120 days	-	-	45,310	3	

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to the third parties.

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2018
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Name	Related Party	Relationship	Ending Balance	Turnover rate (%)	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Ningbo Airtac Automatic Industrial Co., Ltd.	Airtac (China) Co., Ltd.	The same parent company	$ 1,837,944	4	$ -	-	726,383	$ -
Ningbo Airtac Automatic Industrial Co., Ltd.	Airtac Interntional Group	The parent company	126,717	3	$ -	-	50,032	$ -
Guangdong Airtac Automatic Industrial Co., Ltd.	Airtac (China) Co., Ltd.	The same parent company	361,328	2	$ -	-	91,860	$ -
Guangdong Airtac Automatic Industrial Co., Ltd.	Guangdong Airtac Machinery Equipment Co., Ltd.	The same parent company	379,735	3	-	-	92,080	-
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac (Jiangsu) Automatic Co., Ltd.	The same parent company	261,255	3	-	-	68,895	-
Airtac (China) Co., Ltd.	Airtac (Jiangsu) Automatic Co., Ltd.	The same parent company	587,541	6	-	-	290,503	-
Airtac (China) Co., Ltd.	Guangdong Airtac Machinery Equipment Co., Ltd.	The same parent company	898,440	4	-	-	303,891	-
Airtac (China) Co., Ltd.	Airtac (Tianjin) Technology Co., Ltd.	The same parent company	179,829	5	-	-	42,637	-
Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd.	Subsidiary	788,455	1	-	-	-	-
Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd.	Subsidiary	434,577	Note 1	-	-	-	-
Airtac International Group	Guangdong Airtac Automatic Industrial Co., Ltd	Subsidiary	166,837	1	-	-	75,431	-
Airtac International Group	Airtac (China) Co., Ltd.	Subsidiary	471,580	2	-	-	-	-
Airtac International Group	Airtac Co., Ltd.	Subsidiary	106,365	Note 1	-	-	-	-
Airtac International Group	Airtac International (Singapore) Pte. Ltd.	Subsidiary	121,560	Note 1	-	-	-	-
Airtac Industrial (Hong Kong) Limited	Airtac (China) Co., Ltd.	Subsidiary	254,015	Note 1	-	-	-	-

Note 1: The financial statement account is other receivables. Therefore, there is no turnover rate.

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INFORMATION FOR INVESTMENTS IN MAINLAND CHINA
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Company Name	Main Businesses and Products	Paid-in Capital (Note 3)	Method of Investment	Accumulated Investment Outflow from Taiwan as of January 1, 2018	Investment Flow for the Period		Accumulated Investment Outflow from Taiwan as of June 30, 2018	Net income of Investee Company	% of Ownership – Direct or Indirect investment	Investment Gain (Loss) Recognized for the Period (Note 2)	Carrying Amount as of June 30, 2018	Accumulated Inward Remittance of Earnings as of June 30, 2018	Note
					Outflow	Inflow							
Ningbo Airtac Automatic Industrial Co., Ltd	Production of pneumatic control components and auxiliary components	USD 52,000 RMB 135,000 (NTD 2,200,335)	N/A	N/A	$ -	$ -	N/A	$ 869,625	100	$ 890,301	$ 10,340,304	N/A	
Guangdong Airtac Automatic Industrial Co., Ltd	Production of pneumatic control components and auxiliary components	USD 6,000 (NTD 182,340)	N/A	N/A	-	-	N/A	343,702	100	344,466	3,023,019	N/A	
Airtac (China) Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 18,000 RMB 126,000 (NTD 1,125,738)	N/A	N/A	-	-	N/A	547,190	100	523,856	4,604,991	N/A	
Airtac (Jiangsu) Automatic Co., Ltd.	Production of pneumatic control components and auxiliary components	USD 1,500 RMB 23,000 (NTD 151,224)	N/A	N/A	-	-	N/A	182,015	100	182,015	818,896	N/A	
Guangdong Airtac Machinery Equipment Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 10,000 (NTD 45,930)	N/A	N/A	-	-	N/A	210,668	100	210,668	469,209	N/A	
Airtac (Tianjin) Technology Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 10,000 (NTD 45,930)	N/A	N/A	-	-	N/A	17,863	100	17,863	68,905	N/A	

Accumulated Outward Remittance for Investment in Mainland China as of June 30, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
N/A	N/A	N/A

Note 1: The ways to invest in companies in Mainland China are classified into three types below. Mark the type of investment:

1. Direct investment in China.
2. Investment in China through a company registered in the third region.
3. Other ways.

Note 2: The amount was calculated based on financial statements audited by a multinational accounting firm having a cooperative relationship with an accounting firm in Taiwan.

Note 3: Conversion to NTD used the spot exchange rate on June 30, 2018, that is, 1 USD＝30.3900 NTD, 1RMB=4.5930NTD.

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No.	Company Name	Counter Party	Nature of Relationship (Note)	Transaction Details: Financial Statement Account	Transaction Details: Amount	Transaction Details: Payment Terms	Transaction Details: % of Consolidated Sales or Assets
0	Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	1	Other receivable	$ 434,577	Financing	1%
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Other receivable	16,962	General terms and conditions	-
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Trade receivables	788,455	General terms and conditions	2%
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Sales revenue	415,828	General terms and conditions	5%
		ATC (Italia) S.R.L	1	Other receivable	81,420	Financing	-
		Airtac Industrial （Malaysia）Sdn. Bhd.	1	Other receivable	18,842	Financing	-
		Airtac Industrial （Malaysia）Sdn. Bhd.	1	Trade receivables	55,773	General terms and conditions	-
		Airtac Industrial （Malaysia）Sdn. Bhd.	1	Sales revenue	25,561	General terms and conditions	-
		Guangdong Airtac Automatic Industrial Co., Ltd	1	Sales revenue	91,777	General terms and conditions	1%
		Guangdong Airtac Automatic Industrial Co., Ltd	1	Trade receivables	166,837	General terms and conditions	1%
		Airtac Co., Ltd.	1	Other receivable	106,365	General terms and conditions	-
		Airtac (China) Co., Ltd	1	Sales revenue	432,646	General terms and conditions	5%
		Airtac (China) Co., Ltd	1	Trade receivables	471,580	General terms and conditions	1%
		Airtac International (Singapore) Pte. Ltd.	1	Other receivable	121,560	Financing	-
		Airtac Industrial Co., Ltd	1	Trade receivables	14,409	General terms and conditions	-
		Airtac Industrial Co., Ltd	1	Sales revenue	20,285	General terms and conditions	-
1	Ningbo Airtac Automatic Industrial Co.,Ltd	Airtac International Group	2	Trade receivables	126,717	General terms and conditions	-
		Airtac International Group	2	Sales revenue	170,914	General terms and conditions	2%
		Airtac (China) Co., Ltd	3	Trade receivables	1,837,944	General terms and conditions	6%
		Airtac (China) Co., Ltd	3	Sales revenue	3,850,181	General terms and conditions	47%
		Guangdong Airtac Automatic Industrial Co., Ltd	3	Trade receivables	26,571	General terms and conditions	-
		Guangdong Airtac Automatic Industrial Co., Ltd	3	Sales revenue	170,868	General terms and conditions	2%
		ATC (Italia) S.R.L	3	Trade receivables	52,327	General terms and conditions	-
		ATC (Italia) S.R.L	3	Sales revenue	68,121	General terms and conditions	1%
		Airtac International (Singapore) Pte. Ltd.	3	Trade receivables	52,893	General terms and conditions	-
		Airtac International (Singapore) Pte. Ltd.	3	Sales revenue	66,631	General terms and conditions	1%

No.	Company Name	Counter Party	Nature of Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Sales or Assets
1	Ningbo Airtac Automatic Industrial Co.,Ltd	Airtac Co., Ltd.	3	Trade receivables	10,277	General terms and conditions	-
		Airtac Co., Ltd.	3	Sales revenue	12,365	General terms and conditions	-
		Airtac USA Corporation	3	Trade receivables	26,522	General terms and conditions	-
		Airtac USA Corporation	3	Sales revenue	26,082	General terms and conditions	-
2	Guangdong Airtac Automatic Industrial Co., Ltd	Airtac International Group	2	Trade receivables	31,757	General terms and conditions	-
		Airtac International Group	2	Sales revenue	47,687	General terms and conditions	1%
		Ningbo Airtac Automatic Industrial Co., Ltd	3	Trade receivables	10,051	General terms and conditions	-
		Ningbo Airtac Automatic Industrial Co., Ltd	3	Sales revenue	22,466	General terms and conditions	-
		Airtac (China) Co., Ltd	3	Trade receivables	361,328	General terms and conditions	1%
		Airtac (China) Co., Ltd	3	Sales revenue	430,297	General terms and conditions	5%
		Airtac International (Singapore) Pte.Ltd.	3	Trade receivables	14,279	General terms and conditions	-
		Airtac International (Singapore) Pte.Ltd.	3	Sales revenue	31,049	General terms and conditions	-
		ATC (Italia) S.R.L	3	Trade receivables	12,422	General terms and conditions	-
		ATC (Italia) S.R.L	3	Sales revenue	18,272	General terms and conditions	-
		Airtac (Jiangsu) Automatic Co., Ltd	3	Trade receivables	261,255	General terms and conditions	1%
		Airtac (Jiangsu) Automatic Co., Ltd	3	Sales revenue	336,208	General terms and conditions	4%
		Guangdong Airtac Machinery Equipment Co., Ltd.	3	Trade receivables	379,735	General terms and conditions	1%
		Guangdong Airtac Machinery Equipment Co., Ltd.	3	Sales revenue	426,678	General terms and conditions	5%
		Airtac USA Corporation	3	Trade receivables	13,681	General terms and conditions	-
		Airtac USA Corporation	3	Sales revenue	13,399	General terms and conditions	-
3	Airtac (China) Co., Ltd	Airtac (Jiangsu) Automatic Co., Ltd.	3	Trade receivables	587,541	General terms and conditions	2%
		Airtac (Jiangsu) Automatic Co., Ltd.	3	Sales revenue	1,389,668	General terms and conditions	17%
		Guangdong Airtac Machinery Equipment Co., Ltd.	3	Trade receivables	898,440	General terms and conditions	3%
		Guangdong Airtac Machinery Equipment Co., Ltd.	3	Sales revenue	1626,600	General terms and conditions	20%
		Airtac (Tianjin) Technology Co., Ltd.	3	Trade receivables	179,829	General terms and conditions	1%
		Airtac (Tianjin) Technology Co., Ltd.	3	Sales revenue	315,502	General terms and conditions	4%
4	Guangdong Airtac Machinery Equipment Co., Ltd.	Airtac (China) Co., Ltd.	3	Trade receivables	45,310	General terms and conditions	-
		Airtac (China) Co., Ltd.	3	Sales revenue	133,496	General terms and conditions	2%

No.	Company Name	Counter Party	Nature of Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Sales or Assets
5	Airtac Industrial Co., Ltd	Airtac (China) Co., Ltd.	1	Dividend receivables	254,015	-	-
6	Airtac Co., Ltd.	Ningbo Airtac Automatic Industrial Co., Ltd	3	Sales revenue	16,728	General terms and conditions	-

Note：No 1. Represents the transactions from parent company to subsidiary.

No 2. Represents the transactions from subsidiary to parent company.

No 3. Represents the transactions from subsidiary to subsidiary.