



AIRTAC INTERNATIONAL GROUP
2017 ANNUAL REPORT

Notice to readers

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

Printed on April 20, 2018

Market Observation Post System: <http://mops.twse.com.tw/>

AirTAC Website: <http://www.airtac.com/>

I. Spokesperson and Deputy Spokesperson

• Spokesperson

Name: Tsao, Yung-Hsiang
Title: Chief Financial Officer
Tel: (886)2-2719-7538
E-mail: ivan.tsao@airtac.com

• Deputy Spokesperson

Name: Li, Huai-Wen
Title: Vice GM of AirTAC International Group and GM of Mainland China Business Group
Tel: (86)574-8895-0001
E-mail: huaiwenli@airtac.com

II. Headquarters and Subsidiaries

1. Company information

Name: AIRTAC INTERNATIONAL GROUP Tel:(886) 2-2719-7538
Address: PO Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands

2. Branch

Name: AIRTAC INTERNATIONAL GROUP TAIWAN BRANCH Tel:(886) 2-2719-7538
Address: 4F., No.129, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan (R.O.C.)

3. Operation Headquarter:

Name: AIRTAC INTERNATIONAL GROUP Tel:(86) 574-8895-0001
Address: No. 88, Siming East Rd., Hi-tech. Park, Fenghua, Ningbo, Zhejiang, China

4. Subsidiaries

Subsidiaries in Hong Kong

Name: AirTAC Industrial (Hong Kong) Limited ("Hong Kong Industrial") Tel:(886) 2-2719-7538
Address: 15/F., BOC Group Life Assurance Tower, 136 Des Voeux Road Central, Central, Hong Kong
Name: AirTAC Trading (Hong Kong) Limited ("Hong Kong Trading") Tel:(886) 2-2719-7538
Address: 15/F., BOC Group Life Assurance Tower, 136 Des Voeux Road Central, Central, Hong Kong

Subsidiary in British Virgin Islands

Name: Instant Reach International Limited ("Instant Reach") Tel:(886) 2-2719-7538
Address: P.O. Box 958, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands

Subsidiaries in Singapore

Name: AirTAC Holding (Singapore) Pte. Ltd ("AirTAC Holding Singapore") Tel:(65) 6933-7676
Address: 12 Gul Drive #01-00 Singapore (629463)
Name: AirTAC International (Singapore) Pte. Ltd ("AirTAC Singapore") Tel:(65) 6933-7676
Address: 12 Gul Drive #01-00 Singapore (629463)

Subsidiaries in China

Name: Ningbo AirTAC Automatic Industrial CO. LTD. ("AirTAC Ningbo") Tel:(86) 574-8895-0001
Address: No. 88, Siming East Rd., Hi-tech. Park, Fenghua, Ningbo, Zhejiang Province, China
Name: Guangdong AirTAC Automation Industrial Limited Company. ("AirTAC Guangdong") Tel:(86) 757-8521-7397
Address: No.2, Kaixuan Road, Songxia Industrial Park, Lion Town, Nanhai District, Foshan City, Guangdong Province
Name: AirTAC (China) Limited Company ("AirTAC China") Tel:(86) 574-8898-9999
Address: No.8 Hui Sheng Fenghua City, Zhejiang Province, China
Name: AirTAC (Jiangsu) Automation CO. LTD. ("AirTAC Jiangsu") Tel:(86) 512-5518-1853
Address: No 53 Plant (Zhongjieneng Industrial Park II) Town Celebration Huan Road 2980, Yushan Town, Kunshan City Mainland China
Name: Guangdong Airtac Machinery Equipment Co., Ltd. ("Guangdong Airtac Machinery") Tel:(86) 752-3270-329
Address: No.40 Warehouse 5th Zone, Tashin Group, No. 48 East Star Road Chenjiang Street, Zhongkai High-Tech. Development Zone, Huizhou City Guangdong Province, China
Name: Airtac (Tianjin) Intelligent Technology Co., Ltd. ("AirTAC Tianjin") Tel:(86) 228-3990-572
Address: Factory A, 1-3 Floor, D10 of Easter District, No.1 of School west Road, Xiqing School Industrial Area, Tianjin city, China

Subsidiaries in Taiwan

Name: AirTAC Industrial Co., Ltd. ("AirTAC Taiwan") Tel:(886) 2-2671-7236
Address: 1F., No.109, Sec. 2, Zhongzheng Rd., Sanxia Dist., New Taipei City 23670, Taiwan (R.O.C.)

Subsidiaries in Italy

Name: ATC (ITALIA) S.R.L. ("ATC") Tel:(39) 0331-307204
Address: Via San Vittore 16, 20123 Milano, Italy

Subsidiaries in Japan

Name: AirTAC Co. Ltd. ("AirTAC Japan") Tel:(81) 06-4307-6039
Address: 3-6-3 KUSUNE, Higashi Osaka-shi, Osaka, Japan

Subsidiaries in Malaysia

Name: AirTAC Industrial (Malaysia) Sdn. Bhd. ("AirTAC Malaysia") Tel:(60) 7358-7969
Address: No 33, Jalan Molek 1/5A, Taman Molek 81100 Johor Bahru, Johor, Malaysia

Subsidiaries in Thailand

Name: AirTAC Industrial Co., Ltd. ("AirTAC Thailand") Tel:(66) 2023-3515
Address: No. 11/12 M00 9, Bangchalong, Bangplee, Samutprakarn, Thailand. 10540.

Subsidiaries in USA

Name: AirTAC USA CORPORATION ("AirTAC USA") Tel:(1) 281-394-7177
Address: 21401 Park Row Drive, Suite 340, Katy, TX, USA

III. Transfer Agent & Registrar

Name: Transfer Agency Department, Chinatrust Commercial Bank

Tel:(886) 2-6636-5566

Address: 5F., No.83, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City, Taiwan (R.O.C.)

Website: <https://www.ctbcbank.com>**IV. Firm name, address, website URL, telephone number, and the name of the CPA who attested the most recent year's financial report**

Auditing Firm: Deloitte & Touche

Tel: (886) 2-2545-9988

Independent Auditors: Rich Chih, CPA and Roy Weng, CPA

Address:12F., No.156, Sec. 3, Minsheng E. Rd., Songshan Dist., Taipei City 10596, Taiwan (R.O.C.)

Website:<http://www.deloitte.com.tw>**V. Overseas Securities Listing Exchange and Information: None****VI. Company Website: <http://www.airtac.com>****VII. List of Board of Directors**

Occupation	Name	Nationality	Position & Main Experience
Chairman	Wang, Shih-Chung	R.O.C.	Chairman of AirTac International Group
Director	Lan, Shun-Cheng	R.O.C.	Vice Chairman of AirTac Industrial Co., Ltd.
Director	Wang, Hai-Ming	P.R.C.	Vice Chairman of AirTac Ningbo
Director	Lin, Chiang-Ti	R.O.C.	Former GM of overseas Business Group of AirTac International Group
Director	Li, Huai-Wen	P.R.C.	Vice Chairman of AirTac International Group and GM of Mainland China Business Group
Director	Tsao, Yung-Hsiang	R.O.C.	Chief Financial Officer of AirTac International Group
Independent Director	Lin, Ku-Tung	R.O.C.	Previos Director and Chairman of Deloitte & Touche
Independent Director	Chang, Bao-Guang	R.O.C.	Professor, Accounting Department, Tamkang University
Independent Director	Leong, Kamson	Malaysia	Partner & Director of HLL Partners

VIII. Designated Domestic Agent:

Name: Tsao, Yung-Hsiang

Title: Chief Financial Officer

Tel: (886) 2-2719-7538

E-mail: ivan.tsao@airtac.com

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1. Letter to Shareholders

Dear Shareholders,

Foreword

The overall demand of pneumatic actuator market in China is gradually rising, while AirTAC is continuously developing and expanding new customers for promoting market share, and our business turnover stably grew in 2017 with a new record in our history for the consolidated revenue of the Group in 2017.

Operating Performance in 2017:

1. Business performance

Total consolidated revenue for 2017 was NT\$13,717,905 thousand, a 29.15% increase compared with NT\$10,621,618 thousand in 2016. Gross profit for 2017 was NT\$ 7,127,172 thousand, a 31.13% increase compared with NT\$5,435,272 thousand in 2016. Gross margin was 51.96%. Profit from operation for 2017 was NT\$4,141,128 thousand, a 52.27% increase compared with NT\$2,719,668 thousand in 2016. Margin of profit from operation was 30.19%. Net income increased 62.71% to NT\$3,299,781 thousand, compared with 2016 net income of NT\$2,028,050. Earnings per share was NT\$18.07. Total equity was NT\$15,952,119 thousand. Net worth was NT\$84.39 per share.

2. Financial and Profitability analysis

In 2017, consolidated non-operating revenue of AirTAC Group amounted to NTD 216,042 thousand, a growth of 68.33% compared to NTD 128,341 thousand of 2016 with an increase of NTD 87,701 thousand, which is mainly resulted from recognizing an increase of net exchange gain NTD 274,054 thousand. In addition, our return on assets was 13.22% and return on equity was 24.70% in 2017.

3. Research and development status

In R&D, AirTAC continues to shore up the high market shares of our mid-end products used in livelihood manufacturing industry and has been endeavoring in the development of mid-to-high end products in recent years. We plan to roll out about five to ten series of new products every year in the next three years to double the breadth of our product lines. Aside from new product R&D, we also spend heavily on production automation and process improvement to enhance our competitiveness. The 2017 R&D expenditure amounted to NTD 380,519 thousand, accounting for 2.77% of the year's consolidated revenue, a growth of 14.02% compared to NTD 333,729 thousand of 2016 with an increase of NTD 46,793 thousand. In the continuing efforts to strengthen our R&D capability, we plan to increase our R&D spending to 3~4% of the year's consolidated net operating income in the future.

Business plan in 2018:

Besides expanding capacity in existing businesses, Airtac set up a new Tainan factory and a second R&D center in Taiwan for developing high-precision pneumatic products, electric cylinders and other new products and components. In China, Airtac has continued to set up local sales branches and offices, and established a logistics center to improve operational efficiency. As for the overseas operation base, Airtac plans to improve the operations of Japan, Malaysia and Thailand sales subsidiaries gradually. The new USA sales office is going to operate in 2018. It is expected to improve the operation scale for capturing more market shares and increase our profit. In the future, we will set up operation units in

Indonesia and Vietnam, develop electric cylinders and other related new products, agent other automation related components and products by using our dense marketing system in China and around the world to improve the rate of return to shareholders. Base on the factors of world economic situation, changes in the industrial environment, supply, demand and competition of the market, in consideration of our business with existing clients around the world, progress in new clients development and our own capacity, the estimated product sales in 2018 will increase by more than 20% over 2017.

With the goals of seeking stable, sustainable operation and maximum benefits for shareholders, we will continue to explore new clients, develop new products, upgrade production technologies and improve production processes to shore up our overall competitiveness. We also aim for higher profits by improving our operational efficiency and effective cost control. As automation upgrade is the future trend of industry, even if Airtac will experience future overall economic and market demand cycle, the adverse effects of Airtac will be reduced by our dispersal sales of proportion in various industries, providing lower product prices with higher product quality and better sales service to customers to enhance competitiveness for obtaining market share from competitors. We believe that under support of the continued efforts of 6,679 employees worldwide and our shareholders, Airtac will create a new record again in the exploration and development of industrial automation processes.

Sincerely,

Chairman Wang Shih-Chung

CFO Tsao Yung-Hsiang

2. Company Profile

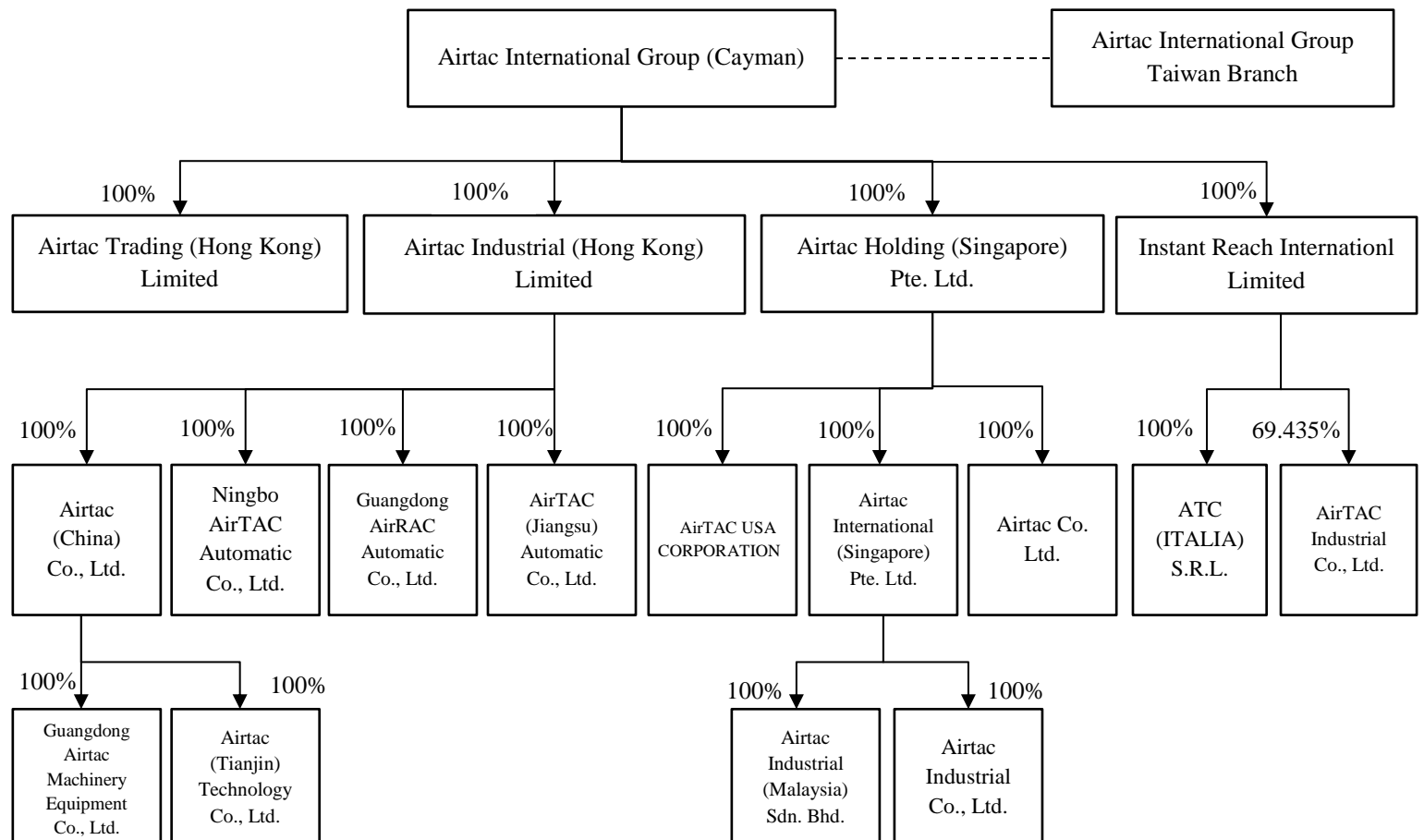
2.1 Company Introduction

2.1.1 Date of establishment and introduction of the Group

AirTAC International Group (referred to the “Company” or the “Group” hereinafter) started out as AirTAC Industrial Co. Ltd. (originally named Ching-Ki Enterprise Co., Ltd.), which was established in May 1989 and manufactured mainly solenoid valves in its early stage. Now AirTAC International Group offers cylinders of special specifications and more than 40 series and hundreds of varieties of valve products, including solenoid valve, pneumatic valve, manual value, hand-draw valve, mechanical valve, and throttle valve. Ningbo AirTAC Automatic Industrial Co. Ltd. was established in 2001 to produce cylinders and air source treatment units for industrial automation applications in automotive, machinery, metallurgy, electronics, textile, porcelain, medical instruments and devices, and food packaging. AirTAC International Group was incorporated on September 16, 2009 in Cayman Islands as the holding company for the group enterprises and was listed in Taiwan Stock Exchange on December 13, 2010.

As a leading manufacturer of pneumatic preparation components, the Company provides clients with total pneumatic solutions with its vertically integrated processes. The Company’s turnkey services, from product design, R&D to volume production, greatly shorten the lead time in product development and the production process for extensive applications in industrial automation.

2.1.2 Affiliates Organization Chart



2.2 Company History

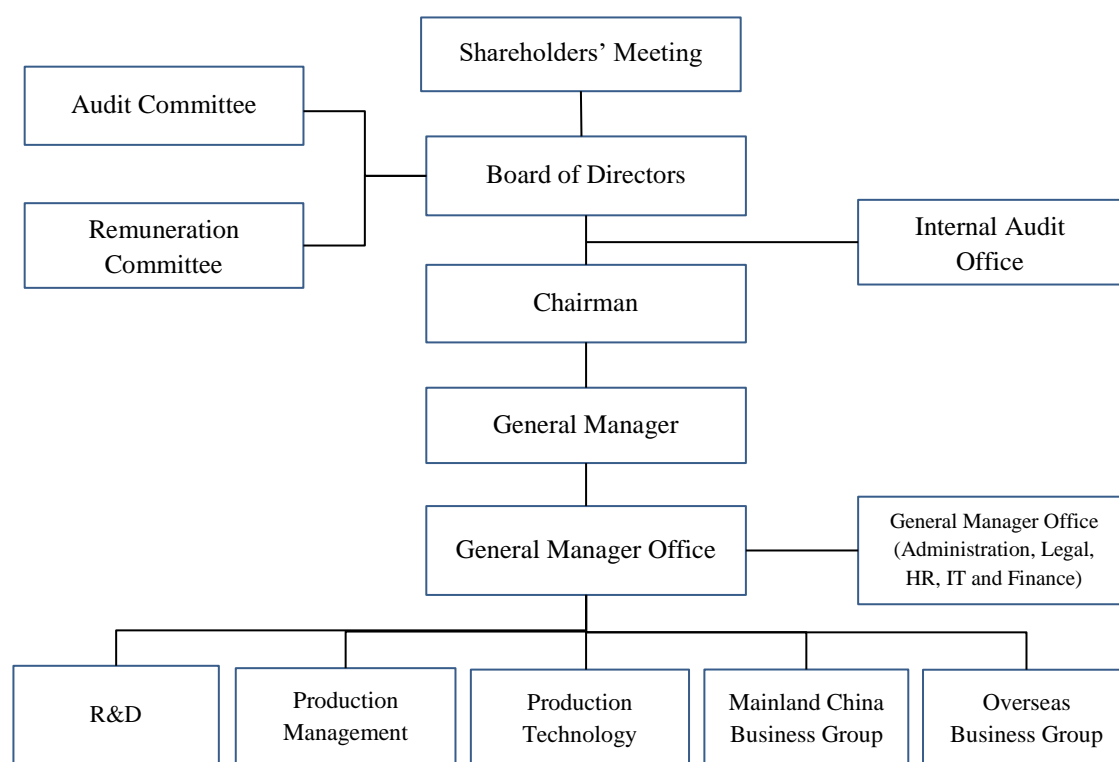
Year	History
1989	AirTAC established in Taipei, Taiwan, mainly engaged in producing valve products.
1990	Launched the brand “AirTAC”.
1992	Introduced air preparation units, pneumatic cylinders, etc.
1995/07	Established the first operating institution of China in Guangzhou.
1998/07	Established the first factory in Guangzhou, China - Guangzhou Jianliang Automatic Industrial Co.
2001/08	Established Ningbo AirTAC Automatic Industrial Co. in Jejiang Ningbo Fenghua Economic Development Zone.
2003/07	The phase 1 plant construction of Ningbo AirTAC Automatic Industrial Co. was completed and in use of mass production.
2005	Adopted ERP system to implement full-scale information management.
2006	Established Guangzhou AirTAC Automatic Industrial Co. in 2006, changed its name to Guangdong AirTAC Automatic Industrial Co. in 2010.
2006/09	Established Jianliang (Shanghai) Trading Co.
2008/05	Established ATC (Italia) as the European sales headquarters.
2009/09	Established AirTAC International Group in Cayman Islands as the Group’s holding company and to apply for IPO
2010/12	IPO in Taiwan
2011/08	Established Southeast Asian Sales Headquarters in Singapore.
2012/01	Founded Airtac (China) Co., Ltd., currently has 57 sales branches in Mainland China.
2012/05	Guangdong AirTAC Automatic Industrial Co., Ltd. relocated to the new plants in Foshan.
2012/07	Expanded and established the R&D Center in Ningbo.
2012/07	Established AirTAC International Group Taiwan Branch and prepared to build the plants in Tainan
2013/04	Established the Japanese Sales Center
2013/07	Established the Malaysian Sales Center
2015/04	Established the Thailand Sales Center
2016/03	First phase project of AirTAC International Group Taiwan Branch Tainan Plant has been completed and started mass production gradually.
2016/11	Established the USA Sales Center

2.3 Risks: Please refer to Section 7 Review of Financial Conditions, Financial Performance, and Risk Management

3. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart



3.1.2 Major Corporate Functions

Division	Functions
Chairman	Decide policy instructions, goals and directions for Company's business and appoint key managerial officers.
General Manager	Manage all affairs of the Company and implement decisions made by the board of directors.
Internal Audit Office	In charge of internal audit tasks.
General Manager Office	Draft strategies and development directions for product sales, customer service and market development. In charge of tasks relating to legal, human resources management and investment management of the Group. In charge of tasks relating to fund management and accounting.
Production Management	In charge of production management of pneumatic actuator, pneumatic control components and air preparation components.
Production Technology	In charge of process technology for the production of pneumatic actuator, pneumatic control components and air preparation units.
R&D	In charge of research, design and improvement of pneumatic actuator, pneumatic control components and air preparation components.
Mainland China Business Group	In charge of market development in China.
Overseas Business Group	In charge of market development outside China.

3.2 Information on board directors, supervisors, president, vice presidents, assistant vice presidents, and chiefs of units and branches

3.2.1 Board Directors and Supervisors

1. Information on board directors

April 13, 2018; Unit: Shares, %

Title	Nationality or Registration Place	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when elected		Current shareholding		Spouse & Minor Shareholding		Shares held in the name of others		Experience (Education)	Current jobs with the Company and other companies	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	ROC	Wang, Shih-Chung	Male	2016.5.18	3	2009.12.24	—	—	—	—	4,877,162	2.58	31,473,264	16.65	▪ Chairman of AirTAC International Group	Note 1	None	None	None
Director	ROC	Lan, Shun-Cheng	Male	2016.5.18	3	2009.12.24	3,475,673	1.94	3,490,000	1.84	—	—	10,000,000	5.29	▪ Vice Chairman of AirTAC Industrial Co. Ltd.	Note 2	None	None	None
Director	PRC	Wang, Hai-Ming	Male	2016.5.18	3	2009.12.24	—	—	—	—	469,586	0.25	11,606,180	6.14	▪ Vice Chairman of Ningbo Airtac	Note 3	None	None	None
Director	ROC	Lin, Chiang-Ti	Male	2016.5.18	3	2010.4.17	1,182,749	0.66	604,601	0.32	—	—	—	—	▪ Former GM of Overseas Business Group	—	None	None	None
Director	PRC	Li, Huai-Wen	Male	2016.5.18	3	2016.5.18	—	—	—	—	—	—	—	—	▪ Vice GM of AirTAC International Group	Note 4	None	None	None
Director	ROC	Tsao, Yung-Hsiang	Male	2016.5.18	3	2013.5.22	50,557	0.03	52,816	0.03	16,453	0.01	—	—	▪ CFO of AirTAC International Group	Note 5	None	None	None
Independent director	ROC	Lin, Ku-Tung	Male	2016.5.18	3	2016.5.18	—	—	—	—	—	—	—	—	▪ Former Chairman of the Board, Director of Deloitte & Touche	Note 6	None	None	None
Independent director	ROC	Chang, Bao-Guang	Male	2016.5.18	3	2010.4.17	—	—	—	—	—	—	—	—	▪ Professor and Director of Accounting, Tamkang University	Note 7	None	None	None
Independent director	Malaysia	Leong, Kam-Son	Male	2016.5.18	3	2010.4.17	—	—	—	—	—	—	—	—	▪ Former J W Childs Operating Partne ▪ Former President of Asia-Pacific Region., York International Corporation	Director and Partner of HLL Partners	None	None	None

Note 1: Chairman and GM of AirTAC International Group, Chairman of Ningbo AirTAC Automatic Industrial Co., Ltd., Chairman of Guangdong AirTAC Automatic Industrial Co., Ltd., Chairman of AirTAC (China) Co., Ltd., Director of ATC (ITALIA) S.R.L., Chairman of AirTAC Industrial Co., Ltd., Chairman of Airtac Industrial (Hong Kong) Limited, Chairman of Airtac Trading (Hong Kong) Limited, Chairman of Instant Reach International Limited, Chairman of Airtac Holding (Singapore) Pte. Ltd., Chairman of Airtac International (Singapore) Pte. Ltd., Chairman of Airtac Co., Ltd., Chairman of Airtac Industrial (Malaysia) Sdn.Bhd, Chairman of Airtac Industrial Co., Ltd., Chairman of AirTAC (Jiangsu) Automatic Co., Ltd., Chairman of AIRTAC USA CORPORATION, Chairman of Guangdong Airtac Machinery Equipment Co., Ltd., and Chairman of Airtac (Tianjin) Technology Co., Ltd., 18 companies in total.

Note 2: Director of Ningbo AirTAC Automatic Industrial Co., Ltd., Director of Guangdong AirTAC Automatic Industrial Co., Ltd., Director of AirTAC (China) Co., Ltd., Director of ATC (ITALIA) S.R.L., Director and Vice Chairman of AirTAC Industrial Co., Ltd., Director of Instant Reach International Limited, Director of Airtac Co., Ltd., Director of Airtac Industrial (Malaysia) Sdn.Bhd, Director of Airtac Industrial Co., Ltd., Director of AirTAC (Jiangsu) Automatic Co., Ltd., Director of AIRTAC USA CORPORATION, 11 companies in total.

Note 3: Director and Vice Chairman of Ningbo AirTAC Automatic Industrial Co., Ltd., Director of Guangdong AirTAC Automatic Industrial Co., Ltd., and Director of AirTAC (China) Co., Ltd., 3 companies in total.

Note 4: Vice GM of AirTAC International Group/GM of of Mainland China Business Group, Director and GM of Ningbo AirTAC Automatic Industrial Co. Ltd., Director and GM of Guangdong AirTAC Automatic Industrial Co., Ltd., Director and GM of AirTAC (China) Co., Ltd., and Director of AirTAC (Jiangsu) Automatic Co., Ltd., 5 companies in total.

Note 5: CFO of AirTAC International Group, Director of Ningbo AirTAC Automatic Industrial Co., Ltd., Director of Guangdong AirTAC Automatic Industrial Co., Ltd., Director of AirTAC (China) Co., Ltd., Chairman of ATC (ITALIA) S.R.L., Director of Airtac Industrial Co., Ltd., Director of Instant Reach International Limited, Director of Airtac Co., Ltd., Director of Airtac Industrial (Malaysia) Sdn.Bhd, Director of Airtac Industrial Co., Ltd., Supervisor of AirTAC (Jiangsu) Automatic Co., Ltd., Director of AIRTAC USA CORPORATION, Supervisor of Guangdong Airtac Machinery Equipment Co., Ltd., and Supervisor of Airtac (Tianjin) Technology Co., Ltd., 14 companies in total.

Note 6: Supervisor of Taiwan Benefit Company, Independent director of Jenisa Biotechnology, Inc and Independent director of TaiRx, Inc., 3 companies in total.

Note 7: Professor of Accounting, Tamkang University and Independent director of Ta-Yuan COGEN Co.,Ltd., 2 companies in total.

2. Supervisors: The Company does not have supervisors, but has set up an Audit Committee on April 28, 2010.
3. All directors of the Company are natural persons. The Company does not have any director that is juridical person.

Professional qualifications and independence analysis of directors and supervisors

Criteria Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence criteria (Note)										Number of other public companies in which the individual is concurrently serving as an independent director
	An instructor or higher position in the department of commerce, law, finance, accounting or other department related to the business needs of the Company in a public or private junior college or university	A judge, public prosecutor, attorney, accountant, or other professional or technical specialist related to the needs of the Company who has passed a national examination been awarded a certificate in a profession necessary for the business of the Company	Have work experience in the areas of commerce, law, finance, or accounting or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10	
Wang, Shih-Chung			✓	✓						✓	✓	✓	✓	0
Lan, Shun-Cheng			✓				✓			✓	✓	✓	✓	0
Wang, Hai-Ming			✓	✓			✓			✓	✓	✓	✓	0
Lin, Chiang-Ti			✓			✓	✓	✓		✓	✓	✓	✓	0
Li, Huai-Wen			✓			✓	✓	✓		✓	✓	✓	✓	0
Tsao, Yung-Hsiang			✓			✓	✓	✓		✓	✓	✓	✓	0
Lin, Ku-Tung		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Chang, Bao-Guang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Leong, Kam-Son			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

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

- (1) Not an employee of the Company or any of its affiliates;
- (2) Not a director or supervisor of the Company or any of its affiliates (the same does not apply if the person is an independent director of the Company or its parent company, or any subsidiary in which the Company holds, directly and indirectly, more than 50% of the voting shares).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within second degree of kinship, or lineal relative within fifth degree of kinship of any of the persons in the preceding three paragraphs.
- (5) Not a director, supervisor or employee of a juristic-person shareholder that holds directly 5% or more of the total number of outstanding shares of the Company or ranks in the top five shareholders.
- (6) Not a director, supervisor, manager or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional or an owner, partner, director, supervisor, manager or a spouse of the abovementioned who provides commercial, legal, financial, accounting services or consultation to the Company or any affiliate of the Company or a spouse thereof. However, this excludes remuneration committee members who exercise their duties in accordance with Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
- (8) Not having a marital relationship or a relative within the second degree of kinship to any other director of the Company.
- (9) Not having a person of any conditions defined in Article 30 of the Company Law.
- (10) Not a governmental, juristic person, or its representative as defined in Article 27 of the Company Law.

3.2.2 President, Vice Presidents, Assistant Vice Presidents, and Chiefs of Units and Branches

April 13, 2018 Unit: Shares, %

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shares held in the name of others		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	ROC	Wang, Shih-Chung	Male	2016.5.27	—	—	4,877,162	2.58	31,473,264	16.65	▪ Chairman of AirTAC International Group	Note 1	—	—	—
Vice Chairman	PRC	Li, Huai-Wen	Male	2018.1.1	—	—	—	—	—	—	▪ GM of of Mainland China Business Group	Note 2	—	—	—
GM of AIRTAC USA CORRPORATION	ROC	Chen, Zhi-Zhong	Male	2017.9.1	—	—	—	—	—	—	▪ Vice GM of of Overseas Business Group	—	—	—	—
GM of AirTAC Jiangsu	PRC	Xu, Guan-Hua	Male	2015.9.1	500	—	—	—	—	—	▪ Vice Executive Deputy GM of AirTAC China	Note 3	—	—	—
Vice GM of AirTAC Guangdong	ROC	Huang, Yao-De	Male	2015.1.1	—	—	—	—	—	—	▪ Senior Manager of AirTAC Guangdong	—	—	—	—
Vice GM of R&D Center	ROC	Hsiao, Yu-Chien	Male	2013.7.1	—	—	—	—	—	—	▪ Senior Manager of the R&D Center	—	—	—	—
Deputy Sales GM of AirTAC China	PRC	Zhang, Xian-Ming	Male	2017.1.1	—	—	—	—	—	—	▪ GM of AirTAC China Sales Branch	—	—	—	—
Deputy Sales GM of AirTAC China	PRC	Zhou, Hong-Yuan	Male	2017.1.1	246,433	0.13	—	—	—	—	▪ Vice Deputy Sales GM of AirTAC China	Note 4	—	—	—
Deputy Sales GM of AirTAC China	PRC	Dai, Jia-Xing	Male	2017.1.1	—	—	—	—	—	—	▪ Vice Deputy Sales GM of AirTAC China	Note 5	—	—	—
Chief Financial Officer	ROC	Tsao, Yung-Hsiang	Male	2010.5.27	52,816	0.03	16,453	0.01	—	—	▪ Senior Finance VP of Paragon Technologies ▪ Chairman's special assistant of Niko-SEM ▪ Auditing assistant manager of Deloitte Taiwan	Note 6	—	—	—
Chief Audit Officer	ROC	Jiang, Xin-Zhi	Male	2017.11.3	200	—	—	—	—	—	▪ Audit Specialist of Catcher Technology Co., Ltd. ▪ Audit Specialist of RT-MART Co., Ltd.	—	—	—	—

Note 1: Chairman and GM of AirTAC International Group, Chairman of Ningbo AirTAC Automatic Industrial Co., Ltd., Chairman of Guangdong AirTAC Automatic Industrial Co., Ltd., Chairman of AirTAC (China) Co., Ltd., Director of ATC (ITALIA) S.R.L., Chairman of AirTAC Industrial Co., Ltd., Chairman of Airtac Industrial (Hong Kong) Limited, Chairman of Airtac Trading (Hong Kong) Limited, Chairman of Instant Reach International Limited, Chairman of Airtac Holding (Singapore) Pte. Ltd., Chairman of Airtac International (Singapore) Pte. Ltd., Chairman of Airtac Co., Ltd., Chairman of Airtac Industrial (Malaysia) Sdn.Bhd, Chairman of Airtac Industrial Co., Ltd., Chairman of AirTAC (Jiangsu) Automatic Co., Ltd., Chairman of AIRTAC USA CORRPORATION, Chairman of Guangdong Airtac Machinery Equipment Co., Ltd., and Chairman of Airtac (Tianjin) Technology Co., Ltd., 18 companies in total., 18 companies in total.

Note 2: Vice GM of AirTAC Interntaional Group/GM of of Mainland China Business Group, Director and GM of Ningbo AirTAC Automatic Industrial Co. Ltd., Director and GM of Guangdong AirTAC Automatic Industrial Co., Ltd., Director and GM of AirTAC (China) Co., Ltd., and Director of AirTAC (Jiangsu) Automatic Co., Ltd., 5 companies in total.

Note 3: Deputy Sales GM of AirTAC China

Note 4: Deputy Sales GM of AirTAC China

Note 5: Deputy Sales GM of AirTAC China

Note 6: CFO of AirTAC International Group, Director of Ningbo AirTAC Automatic Industrial Co., Ltd., Director of Guangdong AirTAC Automatic Industrial Co., Ltd., Director of AirTAC (China) Co., Ltd., Chairman of ATC (ITALIA) S.R.L., Director of Airtac Industrial Co., Ltd., Director of Instant Reach International Limited, Director of Airtac Co., Ltd., Director of Airtac Industrial (Malaysia) Sdn.Bhd, Director of Airtac Industrial Co., Ltd., Supervisor of AirTAC (Jiangsu) Automatic Co., Ltd., Director of AIRTAC USA CORRPORATION , Supervisor of Guangdong Airtac Machinery Equipment Co., Ltd., and Supervisor of Airtac (Tianjin) Technology Co., Ltd., 14 companies in total.

3.2.3 Remunerations of directors, supervisors, president, and vice presidents in recent years

1. Remuneration of directors (including independent directors)

Unit: NT\$ thousands

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Severance Pay (B)		Directors Compensation(C)		Allowances (D)				Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Employee Compensation (G)						
		The company	All companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
																Cash	Stock	Cash	Stock			
Chairman	Wang, Shih-Chung	—	1,193	—	—	—	—	—	42	—	0.04%	—	6,415	—	—	—	—	20,953	—	—	0.87%	—
Director	Li, Huai-Wen	—	1,193	—	—	—	—	—	42	—	0.04%	—	8,000	—	—	—	—	15,430	—	—	0.75%	—
Director	Lan, Shun-Cheng	—	10,261	—	—	—	—	—	286	—	0.31%	—	14,242	—	—	—	—	6,391	—	—	0.94%	—
Director	Wang, Hai-Ming																					
Directo	Tsao, Yung-Hsiang																					
Directo	Lin, Chiang-Ti																					
Independent Director	Lin, Ku-Tung																					
Independent Director	Chang, Bao-Guang																					
Independent Director	Leong Kam-Son																					

Remuneration Table

Bracket of remuneration to respective director	Name of Director			
	Total (A+B+C+D)		Total (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements I	The company	Companies in the consolidated financial statements J
< \$2,000,000	—	Shih-Chung Wang, Shun-Cheng Lan, Hai-Ming Wang, Huai-Wen Li, Yung-Hsiang Tsao, Chiang-Ti Lin, Ku-Tung Lin, Bao-Guang Chang, Kam-Son Leong	—	Shun-Cheng Lan, Ku-Tung Lin, Bao-Guang Chang, Kam-Son Leong
\$2,000,000 ~ <\$5,000,000	—	—	—	Hai-Ming Wang
\$5,000,000 ~ <\$10,000,000	—	—	—	Chiang-Ti Lin
\$10,000,000 ~ <\$15,000,000	—	—	—	Yung-Hsiang Tsao
\$15,000,000 ~ <\$30,000,000	—	—	—	Shih-Chung Wang, Huai-Wen Li
\$30,000,000 ~ <\$50,000,000	—	—	—	—
\$50,000,000 ~ <\$100,000,000	—	—	—	—
\$100,000,000 or higher	—	—	—	—
Total	—	9 persons	—	9 persons

2. Remuneration of supervisors: Not applicable. Since the Company does not have supervisors.

3. Compensation of president and vice presidents

Unit: NT\$ thousands shares; %

Title	Name	Salary (A)		Severance Pay (B)		Bonus and allowance (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
		The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	The Company		Companies in the consolidated financial statements		The Company	Companies in the consolidated financial statements	
								Cash	Stock	Cash	Stock			
Chairman	Wang, Shih-Chung	—	42,108	—	—	—	4,462	—	—	55,008	—	—	3.08%	—
Vice Chairman	Li, Huai-Wen													
GM of Overseas Business Group	Lin,Chiang-Ti													
GM of AIRTAC USA CORRPORATION	Chen, Zhi-Zhong													
GM of AirTAC Jiangsu	Xu, Guan-Hua													
Vice GM of AirTAC Guangdong	Huang, Yao-De													
Vice GM of R&D Center	Hsiao, Yu-Chien													
Deputy Sales GM of AirTAC China	Zhang, Xian-Ming													
Deputy Sales GM of AirTAC China	Zhou, Hong-Yuan													
Deputy Sales GM of AirTAC China	Dai, Jia-Xing													

Note: Lin, Chiang-Ti had resigned GM of Overseas Business Group on 2017.9.30.

Compensation Table

Bracket of compensation to respective president or vice president	Name of president or vice president	
	The company	Companies in the consolidated financial statements
< \$ 2,000,000	—	—
\$2,000,000 ~ <\$ 5,000,000	—	Yao-De Huang, Zhi-Zhong Chen
\$5,000,000 ~ <\$ 10,000,000	—	Chiang-Ti Lin, Yu-Chien Hsiao, Xian-Ming Zhang, Hong-Yuan Zhou, Jia-Xing Dai
\$10,000,000 ~ <\$ 15,000,000	—	Guan-Hua Xu
\$15,000,000 ~ <\$ 30,000,000	—	Shih-Chung Wang, Huai-Wen Li
\$30,000,000 ~ <\$ 50,000,000	—	—
\$50,000,000 ~ <\$ 100,000,000	—	—
\$100,000,000 or higher	—	—
Total	—	10 persons

4. Executive Officers

April 13, 2018

	Title	Name	Employee Bonus- in Stock	Employee Bonus- in Cash	Total	Ratio of total bonus to net income (%)
Manager	Chairman	Wang, Shih-Chung	—	61,399	61,399	1.86%
	Vice Chairman	Li, Huai-Wen				
	GM of Overseas Business Group	Lin, Chiang-Ti				
	GM of AIRTAC USA CORPORATION	Chen, Zhi-Zhong				
	GM of AirTAC Jiangsu	Xu, Guan-Hua				
	Vice GM of AirTAC Guangdong	Huang, Yao-De				
	Vice GM of R&D Center	Hsiao, Yu-Chien				
	Deputy Sales GM of AirTAC China	Zhang, Xian-Ming				
	Deputy Sales GM of AirTAC China	Zhou, Hong-Yuan				
	Deputy Sales GM of AirTAC China	Dai, Jia-Xing				
	Chief Financial Officer	Tsao, Yung-Hsiang				
	Chief Audit Officer	Lin, Chien-Ming				
	Chief Audit Officer	Chiang, Hsin-Chih				

Note 1: Lin, Chiang-Ti had resigned GM of Overseas Business Group on 2017.9.30.

Note 2: Lin, Chien-Ming had resigned Chief Audit Officer on 2017.10.31

Note 3: The board of director appointed Chiang, Hsin-Chih as Chief Audit Officer of the Group on 2017.11.3.

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

1. The ratio of total remuneration paid by the company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income:

Unit: NT\$ thousands

Item	2016		2017	
	Amount	%	Amount	%
Director	91,238	4.76%	84,448	2.56%
General Manager and Vice General Manager	104,723	5.46%	101,578	3.08%
Consolidated profit	1,918,675	100.00%	3,300,103	100.00%

Note: Remuneration to directors includes their pay as an employee. Thus total pays for president and vice presidents could be redundantly calculated.

2. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance and risks:
 - (1) Remuneration to directors is decided based on their other positions in the Company, the extent of participation in Company operations and their contribution value.
 - (2) Compensation to president and vice presidents is decided based on their position, contribution to the Company, and industry standards in accordance with the Company's personnel rules.

3.3 Implementation of Corporate Governance

3.3.1 Operation of the Board of Directors

A total of 7 meetings of the board of directors were held in 2017. Director attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remark
Chairman	Wang, Shih-Chung	7	0	100%	None
Director	Lan, Shun-Cheng	7	0	100%	None
Director	Wang, Hai-Ming	6	1	86%	None
Director	Lin, Chiang-Ti	7	0	100%	None
Director	Li, Huai-Wei	7	0	100%	None
Director	Tsao, Yung-Hsiang	7	0	100%	None
Independent director	Lin, Ku-Tung	7	0	100%	None
Independent director	Chang, Bao-Guang	7	0	100%	None
Independent director	Leong Kam-Son	7	0	100%	None

Notes:

1. If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing, the dates of meetings, sessions, contents of motions, all independents'

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remark
<p>opinion and the Company's response to independent directors' opinion should be specified: None.</p> <p>2. If there is Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motions, causes for avoidance and voting should be specified: None.</p> <p>3. Measures taken to strengthen the functionality and performance assessment of the Board in the current year and the most recent year:</p> <p>(1) The Company believes that healthy and efficient board of directors is the foundation of good corporate governance. Under this principle, the Company set up the Audit Committee and Remuneration Committee to assist the Board in carrying out his duties, and to expose important decisions of Board of Directors on the company's website.</p> <p>(2) Company will refer to the regulation of "public company Board of Directors discussion method", set "Board of Directors discussion rules" in order to follow.</p> <p>(3) In order to let Directors and Managers get protection in executing their tasks, Company buy "Directors and managers liability insurance" every year.</p>					

3.3.2 Operation of Audit Committee

A total of 7 meetings of the board of independent directors were held in 2017. The attendance of independent directors was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remark
Independent director	Lin, Ku-Tung	7	0	100%	None
Independent director	Chang, Bao-Guang	7	0	100%	None
Independent director	Leong Kam-Son	7	0	100%	None
<p>Notes:</p> <p>1. If there are the circumstances referred to in Article 14-5 of Securities and Exchange Act and resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors, the dates of meetings, sessions, contents of motions, resolutions of Audit Committee and the Company's response to Audit Committee's opinion should be specified: None.</p> <p>2. If there is Independent Directors' avoidance of motions in conflict of interest, the Independent Directors' names, contents of motions, causes for avoidance and voting should be specified : None.</p> <p>3. Communications between the independent directors, the Company's Chief Internal Auditor and CPAs: The Company's chief internal audit officer attends all audit committee's meetings to communicate with committee members and report regularly the audit plan and implementation result; CPA would sit in the meetings of audit committee if necessary. In addition to the foregoing, at the usual time the Audit Executives and Accountants could also make direct contact with the Independent Directors as necessary and have good communication situation.</p>					

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

Item	Implementation Status			Deviations from “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary Description	
1. Whether the Company has set and disclose corporate governance in accordance with “Corporate Governance Best-Practice Principles for TWSE/ TPEX Listed Companies”.	✓		The Company has set and disclose corporate governance on Company website in accordance with “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”.	None
2. Equity structure and shareholders’ equity				
(1) Whether the Company has set internal operating procedures to handling shareholder proposals, inquiries, disputes and litigation, and implemented in accordance with procedures.	✓		(1) Staff is assigned and an e-mail box is set up to handle suggestions and disputes of the shareholders, and implemented in accordance with procedures.	None
(2) Whether the Company has controlled major shareholders in actual control and the ultimate controller of major shareholders.	✓		(2) Staff is assigned to manage related information so the list of major shareholders and final decision-makers is available at all times.	None
(3) Whether the Company has set and implemented the risk-control mechanism and the firewall with the affiliated enterprises.	✓		(3) A “Procedure for Engaging in Transaction with Group Enterprises, Specific Companies and Related Parties” has been established to clearly stipulate business and financial dealings with affiliates as a risk control mechanism.	None
(4) Whether the Company has set internal rules prohibiting company insiders from trading securities using information not disclosed to the market.	✓		(4) The Company has set “The Management Rules of Prevention of Insider Trading” prohibiting company insiders from trading securities using information not disclosed to the market.	None
3. Composition and responsibility of the board of directors				
(1) Whether the board of directors has taken diversification policy formulation and implementation of execution for composition of the members of directors.	✓		(1) “Rules for Election of Director” of the Company has mentioned the composition of the board of directors shall be determined by taking diversity into consideration and formulating an appropriate policy on diversity based on the company's business operations, operating dynamics, and development needs, including but not limited to	None

Item	Implementation Status			Deviations from “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary Description	
(2) In addition to set up Remuneration Committee and Audit Committee by law, whether the Company has voluntarily set up other functional committees.		✓	gender, age, nationality, culture and professional knowledge and skills. (2) The Company has set up Remuneration Committee and Audit Committee, as for setting up other functional committees is otherwise authorized by the Board by demand.	None
(3) Whether the Company has formulated rules and procedures for board of directors performance assessments, and conducted regularly scheduled performance assessments each year.		✓	(3) The Company has not yet set board performance assessment rules, will assess to set up depending on the needs in the future.	None
(4) Whether the Company has conducted regularly scheduled assessments of the independence of CPA.	✓		(4) According to the “ Norm of Professional Ethics for Certified Public Accountant of the Republic of China” and “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”, the board of the Company has evaluated the independence of the CPA engaged by the Company regularly and no less frequently than once per annum. In addition to obtaining the independence declaration issued by the CPA, the board of the Company also has confirmed that the CPA does not hold any shares of the Company, nor any position of the Company concurrently.	None
4. Does the company set up a corporate governance unit or appoint personnel responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders' meetings)?	✓		The general manager office is in charge of the corporate governance matters. The main duties are as follow, 1.Planning appropriate system of the company and organization framework to advance the independence of the board of directors, legal compliance, transparency of the company, and implementation of internal control. 2.The directors will be requested and to draft the agenda of meeting of the board of directors. Notify all director to attend the meeting and provide sufficient information that directors can understand the contents of the subject. Remind the interested person to avoid the subject which is related to the interested person. 3.The date of shareholders' meeting will be recorded according to law. The meeting notice, handbook for the meeting, and the minutes will be declared before the	None

Item	Implementation Status			Deviations from “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary Description	
			deadline. After amending articles or reelecting directors, changes to company registration will be filed.	
5. Whether the Company has maintained channels of communication with the stakeholders and designated stakeholders section on the Company’s website and to properly respond to the issues of important corporate social responsibility concerning to the stakeholders.	✓		Staff is assigned and an e-mail box is set up to handle public relations and the affairs of stakeholders. The Company has designated stakeholders section on the Company’s website and to properly respond to the issues of important corporate social responsibility concerning to the stakeholders.	None
6. Whether the Company has engaged a professional shareholder services agent to handle shareholders meeting matters.	✓		The Company has engaged shareholder services agency department of China trust Commercial Bank to handle shareholders meeting matters.	None
7. Disclosure of information (1) Whether the Company has set up a website to disclose financial and corporate governance information.	✓		(1) The Company has disclosed financial and corporate governance information on the Company’s website.	None
(2) Whether the Company has adopted any other ways to disclose information (such as the setup of an English website, appointment of the specific person in charge of information collection and disclosure, adoption of the spokesperson system, disclosing the institutional investor road shows on the company website).	✓		(2) The Company has set up a website in Chinese and foreign languages and update the information regularly. The Company also has a spokesperson system in place and observed applicable regulations and the established system. The Company holds investors conference from time to time and posts the contents of investors’ conferences on Market Observation Post System and company website.	No major difference
8. Whether the Company has any other important information that aids the understanding of status of corporate governance (e.g. employee benefits, employee care, investor relations, rights of stakeholders, continuing education of directors and supervisors, risk management policy and risk assessment criteria, execution of customer	✓		(1) The Company has established the Procedure for Distributing Employee Performance Bonus and Procedure for Retirement Incentives. (2) All of the board of directors and independent directors of the Company have professional background and practical experience of the industry. The Company will provide related information of the regulations depending on the needs. (3) Except for special circumstances, all directors and independent directors would attend board meetings and	No major difference

Item	Implementation Status			Deviations from “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and reasons
	Yes	No	Summary Description	
policy, purchase of liability insurance for directors and supervisors).			directors are avoid from voting on motions they have stake, and can't represent other Director exercise its voting right. (4) The Company purchases liability insurance for its directors and managers.	
<p>9.Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures.</p> <p>(1) Improvements</p> <p>a.Since 2017, the Company adopt electronic voting in shareholders' meeting.</p> <p>b.The Company has disclosed Ethical Corporation Management Best Practice Principles and Corporate Social Responsibility Best Practice Principles on the Company's website.</p> <p>(2) Priority enhancement measures</p> <p>a.The independent directors of the Company will attend in a advanced studies in accordance with “ Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies.”</p> <p>b.The Company will disclose the communications between the independent directors, the Company's Chief Internal Auditor and CPAs.</p>				

3.3.4 If the Company has a remuneration committee in place, the composition, duties, and operation of the remuneration committee:

1. Members of the Remuneration Committee

Title	Name	Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence criteria (Note)										Number of other public companies in which the individual is concurrently serving as a remuneration committee	Remark
		An instructor or higher position in the department of commerce, law, finance, accounting or other academic department related to the business needs of the Company in a public or private junior college or university	A judge, public prosecutor, attorney, Certificated Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience in the areas of commerce, law, finance, or accounting or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10			
Independent director	Lin, Ku-Tung		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2		
Independent director	Chang, Bao-Guang	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1		
Independent director	Leong, Kam-Son			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0		

Note 1: Please tick the corresponding boxes if remuneration committee have been any of the following during the two years prior to being elected or during the term of office.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliates (the same does not apply if the person is an independent director of the Company or its parent company, or any subsidiary in which the Company holds, directly and indirectly, more than 50% of the voting shares).
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within second degree of kinship, or lineal relative within third degree of kinship of any of the persons in the preceding three paragraphs.
- (5) Not a director, supervisor or employee of a juristic-person shareholder that holds directly 5% or more of the total number of outstanding shares of the Company or ranks in the top five shareholders.
- (6) Not a director, supervisor, manager or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional or an owner, partner, director, supervisor, manager or a spouse of the abovementioned who provides commercial, legal, financial, accounting services or consultation to the Company or any affiliate of the Company or a spouse thereof.

(8) Not having a person of any conditions defined in Article 30 of the Company Law.

2. Operation of the Remuneration Committee

(1) The remuneration committee of the Company consists of 3 members.

(2) Term of the committee members: May 18, 2016 ~ May 17, 2019. A total of 4 meetings of the remuneration committee were held in the most recent years. Director attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remark
Convener	Chang, Bao-Guang	4	0	100%	None
Committee Member	Lin, Ku-Tung	4	0	100%	None
Committee Member	Leong Kam-Son	4	0	100%	None
<p>Notes:</p> <p>1. In case there were matters passed not by or amended by the board of directors, describe the date, term, motions and resolution of the board of directors' meeting, and actions taken by the Company based on the opinions of the remuneration committee (In case the remuneration passed by the board of directors' meeting exceeds the suggestion of the remuneration committee, describe the difference and reason): None.</p> <p>2. In case any member of the remuneration committee expressed dissenting or reserve opinions on any resolution adopted at the meeting of remuneration committee with a record or written statement, describe the date, term and motions of the meeting of remuneration committee, and actions taken by the Company on the opinions of the remuneration committee: None.</p>					

3.3.5 Fulfillment of corporate social responsibilities (CSR): systems and measures that the Company has adopted with respect to environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights, safety and health, and other corporate social responsibilities and activities, and the state of implementation.

Evaluation Criteria	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies ("CSR Best Practice Principles") and Reasons
	Yes	No	Summary Description	
<p>1. Implementation of Corporate Governance</p> <p>(1) Whether the Company has set its corporate social responsibility policy and examines the results of the implementation.</p>	✓		<p>(1) The Company creates "people-oriented, profit-sharing, mutual development, social responsibility" business culture to commend corporate social responsibility policy. The Company has been an avid supporter of public interest</p>	In compliance with the CSR Best Practice Principles.

Evaluation Criteria	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	Yes	No	Summary Description	
			activities, actively promoting and participating in activities in Taiwan and China designed to help people in need. The responsibility unit will report the the results of the implementation of the activities regularly to the person in charge.	
(2) Whether the Company has conducted CSR education and training on a regular basis.	✓		(2) The Company regularly uses internal education training, meetings or employee public activities to promote corporate social responsibility.	In compliance with the CSR Best Practice Principles.
(3) Whether the Company has dedicated organization for the promotion and execution of corporate social responsibility, and does Board of Directors authorize High Management handling and report to Board of Directors the handling situation.	✓		(3) The Company has a charity team to take charge of the “Sunshine Actions” program that aims to provide emergency relief, support disadvantaged children, show loving care to underprivileged groups, vitalize education, and nourish humanity in society in the hope to perform its obligations as a good corporate citizen and give back to the society. The Board of Directors also authorize to handle through the relevant standards, Company report to the Directors (including independent Directors) implementation situation.	In compliance with the CSR Best Practice Principles.
(4) Whether the Company has set a reasonable salary remuneration policy to be integrated with the employee performance review system and corporate social responsibility, and set up obviously effective employee reward and disciplinary system.	✓		(4) The Company consider the salary standard in all industry and area, proceed to set up generous salary compensation policies, and to integrate reward and disciplinary system with corporate social responsibility into employee handbook.	In compliance with the CSR Best Practice Principles.

Evaluation Criteria	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	Yes	No	Summary Description	
2. Fostering a Sustainable Environment				
(1) Whether the Company has endeavored to utilize all resources more efficiently and uses renewable materials which have a low impact on the environment.	✓		(1) The Company conducts regular maintenance check of electric equipment and major energy-consuming equipment to prevent tripping, fuming, dripping, leakage and malfunction, thereby enhancing the energy efficiency. In the efforts to reduce environmental load, the Company has retired 14 units of fuel crucible furnace and replace them with electric furnace to improve energy efficiency and reduce the emission of sulfur dioxide and other pollutants.	In compliance with the CSR Best Practice Principles.
(2) Whether the Company has established proper environmental management systems based on the characteristics of their industries.	✓		(2) Besides carrying out refuse sorting, recycling, reduction and reutilization in support of government policies and environmental hygiene regulations, the Company also carries out energy measurement and statistics in waste management. At the same time, the Company provides personnel performing energy statistics work with professional training to hone their skills and knowledge and make sure all energy statistics generated are true, clear and accurate.	In compliance with the CSR Best Practice Principles.
(3) Whether the Company has monitored the impact of climate change on its operations and should establish company strategies for energy conservation and carbon and greenhouse gas reduction.	✓		(3) In response to government’s call for energy conservation and carbon reduction, the Company would adjust its production plan as deemed fit to reduce power consumption during peak demand. The Company would post signs at appropriate spots to remind the employees of water and electricity conservation and educate employees about energy conservation and environmental protection laws and knowledge to raise their awareness and sense of responsibility to	In compliance with the CSR Best Practice Principles.

Evaluation Criteria	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	Yes	No	Summary Description	
			environmental protection. The Company has drawn up energy conservation targets and implement energy saving measures and tackle the environmental issues from four aspects, i.e. production plan, technology upgrade, management statistics, and worksite, and promotion and education.	
3. Preserving Public Welfare				
(1) Whether the Company has complied with relevant labor laws and regulations, protects the legal rights and interests of employees, and has in place appropriate management methods and procedures.	✓		(1) The Company abides by the local labor laws and regulations by paying labor and health insurance premiums, pensions, social and medical insurance, and makes contribution to housing provident fund to protect the basic rights of an employee. The Company’s related regulations of appointment and dismissal of employees, payroll and procedures to be followed, salary and human resources management are set in accordance with the relevant regulations.	In compliance with the CSR Best Practice Principles.
(2) Whether the Company has built complaint mechanism and channel to be treated properly.	✓		(2) The Company set up staff email, internal communication software, as complaint channel to company Executives, related matters to be handled by a dedicated unit and upon checking true conduct disciplinary.	In compliance with the CSR Best Practice Principles.
(3) Whether the Company has provided safe and healthy work environments for its employees, and organizes training on safety and health for its employees on a regular basis.	✓		(3) The Company believes that only mentally and physically healthy employees could produce efficient and high-quality performance in work. Thus the Company endeavors to provide employees with a safe and healthy work environment. The Company has an employee lounge at worksite and arranges annual employee travel activities. In the aspect of work	In compliance with the CSR Best Practice Principles.

Evaluation Criteria	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	Yes	No	Summary Description	
			safety, the Company carries out safety management in accordance with the machinery production safety standards and draws up a comprehensive safety management system to identify hazardous factors at work and undertake troubleshooting. Through continuous education, training and promotion, the Company imparts employees with emergency response capability and raises their awareness to work safety. The Company also establishes prevention and tracking system for work injury to build a safe work environment in the hope to reduce the incidence of work-related accidents, thereby alleviating any adverse impact on Company assets and employee safety. Recreation Areas are equipped in the Company. Leisure activities are held by specially-assigned person and annual travels are arranged for employees.	
(4) Whether the Company has established periodical communication system between the Company and the employees and the employees being timely informed of the operational change which may cause major impact.	✓		(4) Meetings with managers and employees are held periodically to effectively carry out the communication system. Employees will be informed of all the changes on the company policies and regulations through announcement, notification, internal communication letter, meetings or emails issued by the Company.	In compliance with the CSR Best Practice Principles.
(5) Whether the Company has established an effective capacity development of career training program for employees.	✓		(5) The Company set up annual staff training programs according to the functions and the ability to staff positions, periodically conduct internal and external training regular staff SEPT suitability of internal and external training company.	In compliance with the CSR Best Practice Principles.

Evaluation Criteria	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	Yes	No	Summary Description	
(6) Whether the Company has established relevant consumer protection policies and grievance procedures for R&D, procurement, production, operation and service processes, etc.	✓		(6) To make sure consumer complaints are handled and corrective and preventive actions are taken in a timely manner, the Company has set up a department to handle customer complaint and rigorously observes the internal after-sale service management rules in accepting, handling, and following up customer complaints and file related information afterwards. The Company also conducts consumer satisfaction survey in January and July each year so as to obtain valid customer feedback on services relating to delivery, service, quality, quantity and price, and use the information as important basis for improving the quality of after-sale service.	In compliance with the CSR Best Practice Principles.
(7) Whether the Company has complied with applicable laws and international norms for marketing and labeling of products and services.	✓		(7) The Company's products have an ISO 9001 quality system certification and CE certification, and products are all in line with ROHS environmental protection requirements.	In compliance with the CSR Best Practice Principles.
(8) Whether the Company has accessed the impact of the suppliers’ past record of the environment and social before the conduct with suppliers.	✓		(8) The Company has developed supplier management approach whether the impact of the inclusion of environmental and social record evaluation for suppliers.	In compliance with the CSR Best Practice Principles.
(9) Whether the Company has the terms in the contracts with the main suppliers containing whether the suppliers such as a violation of their corporate social responsibility policy, and have significant influence on the environment and society, may at any time terminate or cancel the contract.	✓		(9) The Company has supplier management approach, evaluate supplier social reputation into assessment, and if its products have environment prohibited substances unqualified, the company can not proceed procurement.	In compliance with the CSR Best Practice Principles.

Evaluation Criteria	Implementation Status			Differences with Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (“CSR Best Practice Principles”) and Reasons
	Yes	No	Summary Description	
4. Enhancing Information Disclosure (1) Whether the Company has disclosed relevant and reliable corporate social responsibility related information on the Company’s website and Market Observation Post System.	✓		(1) The Company reveals performance of corporate social responsibility in annual report and discloses CSR operation and sponsorship activities on its website.	In compliance with the CSR Best Practice Principles.
5. If the Company has established its corporate social responsibility guidelines in accordance with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies (the “CSR Best Practice Principles”), describe the operational status and differences with the CSR Best Practice Principles: The Company is in the process of drafting its corporate social responsible guidelines and relevant rules.				
6. Other important information to facilitate better understanding of the Company’s implementation of corporate social responsibility: None.				
7. The Company’s product or corporate social responsibility report that has passed the examination of a certification institution: None.				

3.3.6 The state of the Company’s performance with respect to honest and good faith management and the adoption of related measures: The Company operates by the principle of honesty and conducts business in compliance with applicable laws and regulations.

Evaluation criteria	Implementation Status			Differences with Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and Reasons
	Ye	No	Summary Description	
1. Establishing a policy on ethical corporate management: (1) Whether the Company has Specified the Company’s policy on ethical corporate management in its official charter and material documents, including the board and management’s commitment to its implementation.	✓		(1) The Company has formulated the Employee Handbook and regulation of rewards and punishment for ethical behaviors. The HQ of the Company is in charge of the establishment of the policy on ethical corporate management and each operation center is supposed to implement the related policy. And the audit department is responsible for supervision.	In compliance with the Ethical Corporate Management Best Practice Principles.

Evaluation criteria	Implementation Status			Differences with Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and Reasons
	Ye	No	Summary Description	
(2) Whether the Company has set up and implemented a program to prevent dishonest behavior, including its operation, guidelines, breaches of discipline and appeal system.	✓		(2) The Company's Employee Handbook has clearly specified the punishments against law breaking, offering and accepting bribes, offering or accepting unreasonable gifts or hospitality, or other inappropriate benefits with clear channels of appeal, and trainings of related principles are carried out for employees.	In compliance with the Ethical Corporate Management Best Practice Principles.
(3) Whether the Company has adopted the prevention measures for the Subparagraphs of Paragraph 2, Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies or which business activities within their business scope which are possibly at a higher risk of being involved in an unethical conduct.	✓		(3) The Company has set up an accounting system and internal control system for business activities that are at higher risk to dishonest behavior. The Company has no under-the-table accounts or secret accounts. The aforementioned systems are reviewed periodically to ensure that they are working and measures are implemented.	In compliance with the Ethical Corporate Management Best Practice Principles.
2. Implementation of ethical corporate management (1) Whether the Company has assessed the integrity of the record of counterparties, and entered into contracts with counterparties with the terms of integrity act provisions.	✓		(1) The Company has set Supplier Management Measures, if there are any doubts about the credibility of the supplier, can not make purchases. The Company's Supplier Agreement states that all suppliers shall not offer bribes to the employees of the Company. The Company will pursue responsibilities and terminate the business relationship with the bribing supplier.	In compliance with the Ethical Corporate Management Best Practice Principles.
(2) Whether the Company has set the dedicated (part-time) units belonging to the board of directors to promote business integrity management and regularly report to the board of its implementation.	✓		(2) The Company's Employee Handbook stipulates that employees shall not engage in bribery, corruption, harassment towards suppliers. Commendation and awards are granted to those who have outstanding ethical performances, which is an auditing item of the internal auditors, and report to the board of directors.	In compliance with the Ethical Corporate Management Best Practice Principles.

Evaluation criteria	Implementation Status			Differences with Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and Reasons
	Ye	No	Summary Description	
(3) Whether the Company has set up and implement policies to prevent conflict of interests and providing channels to report such conflict.	✓		(3) The Company has promulgated policies like Ethical Corporate Management Principle and Employee Handbook to prevent conflict of interests.	In compliance with the Ethical Corporate Management Best Practice Principles.
(4) Whether the Company has built an effective accounting system and internal control system to carry out ethical corporate management, with internal auditors auditing the process or to engage a certified public accountant to carry out the audit.	✓		(4) The Company has established an effective accounting system and internal control system. In addition, internal auditors schedule regular audits according the level of risks. The internal audit unit has periodically examined the Company's compliance with the accounting systems and internal control systems, and has engaged a certified public accountant to carry out the audit.	In compliance with the Ethical Corporate Management Best Practice Principles.
(5) Whether the Company has periodically organized internal and external training for integrity management.	✓		(5) The Company has stipulated requirements of staff integrity in the Employee Handbook as the trainings of employee entry and in-service.	In compliance with the Ethical Corporate Management Best Practice Principles.
3. Operating situation of whistle-blowing system (1) Whether the Company has adopted a concrete whistle-blowing system, established a convenient whistle-blowing channel and dedicated appropriated personnel appointed to handle the objects.	✓		(1) The reporting channels include mailboxes and internal communication software for employee complaints to senior managers (e.g. CEO, GM of each subsidiary). If any violation is found, the responsible department will conduct investigation with punishment being meted in accordance with the severity of the offense.	In compliance with the Ethical Corporate Management Best Practice Principles.
(2) Whether the Company has established standard investigation operating procedures and related security mechanism for case acceptance.	✓		(2) The Company has appointed dedicated unit to handle related affairs and confidentiality of the identity of whistle-blowers and the content of reported cases.	In compliance with the Ethical Corporate Management Best Practice Principles.
(3) Whether the Company has adopted measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing.	✓		(3) The Company has adopted measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing.	In compliance with the Ethical Corporate Management Best Practice Principles.

Evaluation criteria	Implementation Status			Differences with Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and Reasons
	Ye	No	Summary Description	
4. Strengthening information disclosure (1) Whether the Company has disclosed related information on ethical corporate management on the Company's website and Market Observation Post System.	✓		(1) The Company's culture, operate policies are posted on the Company's website and are duly updated; Disclosing related information on ethical corporate management on Market Observation Post System.	In compliance with the Ethical Corporate Management Best Practice Principles.
5. Should the Company promulgate its own ethical corporate management principles in accordance with the "Ethical Corporate Management for TWSE/GTSM-listed Companies", describe differences between real practices and the principles established: None.				
6. Other important information to facilitate understanding of the Company's implementation of ethical corporate management practices: (1) The <i>Handbook for the Meeting of Board of Directors</i> of the Company states the Director recusing policy against conflict of interest. In case a director has any conflict of interest, he shall recuse himself from participating in voting or voting as a proxy of other Directors. (2) The Internal Trading Prevention Policy of the Company states that employees shall not reveal or ask related colleague for internal major information of the Company. (3) The Company's "Rules of Business Integrity" has been implemented after the Board of Directors through the implementation, any amendments thereto in the same fashion, not to mention the meeting of the shareholders.				

3.3.7 Ways to inquire the Company's corporate governance best-practice principles or related rules:

The Company has set the Code of Corporate Governance and the relevant rules which are approved by board of directors. The related content has been uploaded to the Company website to facilitate the investing public inquiry.

3.3.8 Other significant information that will provide a better understanding of the state of the Company's implementation of corporate governance: None.

3.3.9 Status of the execution of Internal Control Systems

1.Statement of Internal Controls

AirTAC International Group

Statement of Internal Controls

January 19, 2018

The Company states the following with regard to its internal control systems for 2017 based on the results of self-evaluation:

1. The Company is fully aware that the establishment, implementation, and maintenance of the internal control systems are the responsibility of the board of directors and management. The purpose is to make sure the target achieved and reasonable assurance on business operation effects/efficiency (profits, performance and asset security), reliable, timely, transparent reports in accordance with the related statements & laws.
2. An internal control system has its inherent limitations. No matter how perfect is its design, an effective internal control system can only provide reasonable assurance for the attainment of the three goals described above. Moreover, the effectiveness of internal control systems could change along with the changes in environment and circumstances. However the Company's internal control system is equipped with the function of self-monitoring, that the Company will take immediate action once a deficiency is identified.
3. The Company determines whether the design and implementation of its internal control systems are effective based on the criteria provided in the *Regulations Governing Establishment of Internal Control Systems by Public Companies* (referred to as the "Governing Regulations" hereunder). Said criteria divide internal control into five elements based on the process of management control: 1. Control Environment, 2. Risk Assessment and Response, 3. Control Operation, 4. Information and Communication, and 5. Supervision. Each element contains several items. Please refer to the Governing Regulations.
4. The Company has evaluated the validity of the design and implementation of its internal control systems based on the aforesaid criteria.
5. Based on the results of aforementioned evaluation, it is found that the internal control systems of the Company for the year ended December 31, 2017 (including the supervision and management of subsidiaries) was effective in design and implementation, that it reasonably assures the accomplishment of aforesaid goals. The understanding of the achieved results of the internal control system design and execution works that business operation effects/efficiency, reliable, timely, transparent reports in accordance with the related statements & laws and reasonably ensure the above targets to meet.
6. This Statement shall become a major part of the Company's annual report and be made public. Any false representation or concealment in this Statement shall be subjected to legal consequences as stipulated in Articles 20, 32, 171 and 174 of the *Securities and Exchange Act*.
7. This statement has been passed by the Company's board of directors in a meeting held on January 19, 2018, where all of the nine attending directors have agreed to the contents of this statement.

AirTAC International Group

Chairman: Wang Shih-Chung

General Manager: Lan Shun-Cheng

- 2.If a CPA was engaged to examine the internal control systems, disclose the CPA examination report: None.

3.3.10 Any legal sanctions against the Company or its internal personnel, or any disciplinary action taken by the Company against its own personnel for violation of internal controls, during the most recent fiscal year and up to the date of annual report, major deficiencies associated with the sanction and status of improvement actions taken: None.

3.3.11 Major resolutions and execution of the shareholders' meetings in the most recent year and as the date of the publication of the annual report:

Date	Major resolutions of the shareholders' meetings	Status of the execution
May 16, 2017	1. Adoption of the Company's Operation and Business Report and Consolidated Financial Statements for the year 2016.	Approved
	2. Adoption of the proposal for earnings distribution for the year 2016.	Approved and executed according to the resolution of the shareholders meeting. It resolve that the cash dividend is CNY \$219,896,405 and the dividend payment date is on July 20, 2017.
	3. Pass the amendments to the Amended and Restated Memorandum and Articles of Association (the "M&A") of the Company.	Approved and disclosed on the Company's websit.
	4. Approved the amendments to "Amended and Restated M&A", "Guidelines for Lending Funds to Others", "Guidelines for Lending Funds to Others", "Rules of Procedure for Shareholders' Meetings" of the Company.	Approved disclosed on the Company's websit.

3.3.12 Important resolutions adopted in board of directors meetings in the most recent year and the current year up to the date of annual report:

Date	Important resolutions adopted in board of directors meetings
January 13, 2017	1. Approval the 2017 consolidated financial budget of the Company and its subsidiaries and the business report. 2. Approval the Company's ratio of profit distributable to the employees as compensation for the year 2017. 3. Approval of the statement on internal control systems of the Company as of December 31, 2016.
February 24, 2017	1. Approve the business report and the consolidated financial statements of the Company and its subsidiaries for 2016. 2. Approve the Company's profit distributable to the employees as compensation for 2016. 3. Approve the Company's earning distribution for 2016. 4. Approve the purchase of liability insurance for directors. 5. Approve the date, venue, record date for book-closed period, and meeting agenda of the 2017 annual general meeting of the shareholders of the Company.
March 29, 2017	1. Approve the cash capital increase by issuance of ordinary shares of the Company. 2. Pass the amendments to the Amended and Restated Memorandum and Articles of Association (the "M&A") of the Company.
May 4, 2017	Approve the consolidated financial statements of the Company and its

Date	Important resolutions adopted in board of directors meetings
	subsidiaries for the first quarter of 2017.
May 16, 2017	Approve the record date for the 2016 Earnings Distribution Plan and relevant matters of the Company.
August 4, 2017	1. Approve the consolidated financial statements of the Company and its subsidiaries for the second quarter of 2017. 2. Approve the allocation of working capital from the Company to Airtac International Group Taiwan Branch.
November 3, 2017	1. Approve the consolidated financial statements of the Company and its subsidiaries for the third quarter of 2017. 2. Approve the 2018 audit plan of the Company. 3. Approve the evaluation of the independence and the competence of the Certified Public Accountant for the audit of the financial statement of the Company. 4. Approve to appoint Hsin-Chih Chiang to be Chief Auditor Officer of the Company.
January 19, 2018	1. Approve the 2018 consolidated financial budget of the Company and its subsidiaries and the business report. 2. Approve the Company's ratio of profit distributable to the employees as compensation for the year 2018. 3. Approve the statement on internal control systems of the Company as of Dec. 31, 2017. 4. Approve the purchase of directors' liability insurance.
March 12, 2018	1. Approve the business report and the consolidated financial statements of the Company and its subsidiaries for 2017. 2. Approve the Company's profit distributable to the employees as compensation for 2017. 3. Approve the Company's earning distribution for 2017. 4. Pass the amendments to the Amended and Restated Memorandum and Articles of Association (the "M&A") of the Company. 5. Approve the date, venue, record date for book-closed period, and meeting agenda of the 2018 annual general meeting of the shareholders of the Company.

3.3.13 Different opinions of directors or supervisors on record or in written statement on major resolutions approved by the board of directors in the recent year and as of the date of the publication of the annual report: None.

3.3.14 Information on persons in connection with the Company

1. Statement of resignations/dismissals (including chairman, president, accounting chief, financial chief, internal chief auditing and R&D chief) in the recent year and as of the date of the publication of the annual report:

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
Chief Auditor Officer	Lin, Chien-Ming	2009.12.24	2017.10.31	Personal Career Planning

2. Certifications obtained by the persons in connection with the disclosure of financial information

Certificate	Number of people	
	Internal audit	Financial
CPA	0	5
CICPA	0	3
CIA	0	0

3.4 Information on CPA Fees

3.4.1 CPA fees information

Name of accounting firm	Name of CPA		Audit period	Remark
Deloitte & Touche	Rich Chih	Roy Weng	2017	None

Monetary unit: NT\$ Thousand

Item of fee Amount bracket		Auditing fees	Non-auditing fees	Total
1	<\$2,000,000	—	—	—
2	\$2,000,000 (inclusive)~\$4,000,000	2,000	644	2,644
3	\$4,000,000 (inclusive)~\$6,000,000	—	—	—
4	\$6,000,000 (inclusive)~\$8,000,000	—	—	—
5	\$8,000,000 (inclusive)~\$10,000,000	—	—	—
6	>\$10,000,000 (inclusive)	—	—	—

3.4.2 Mandatory disclosure of the auditing and non-auditing fees and the contents of non-auditing service of CPAs, their accounting firms, and affiliates whose non-auditing fee exceeds one fourth of the auditing fee: None.

Monetary unit: NT\$ Thousand

Name of accounting firm	Name of CPA	Auditing fee	Non-audit fees					Audit period	Remark
			System design	Business registration	Human resources	Others	Subtotal		
Deloitte & Touche	Rich Chih, Roy Weng	2,000	—	144	—	500	644	2017	Note

Note: The aforesaid CPA fees do not include fees of RMB \$1,835 thousand which included RMB 200,000 thousand of fees for transfer pricing analysis (equivalent to NTD \$8,377 thousand according to the exchange rate of 4.565 in the end of 2017) paid to Deloitte Touche Tohmatsu in China in 2017. Other non-audit fees refer to the fees to provide transfer pricing reports.

3.4.3 Replacement of accounting firm and the auditing fee for the replacement year decreases from the previous year which requires mandatory disclosure of the auditing fees of the two years and provision of reasons: None.

3.4.4 Auditing fee decrease over 15% from the previous year: None.

3.5 Information on Replacement of CPA:

3.5.1 Regarding the former CPA

Replacement Date	August 4, 2017		
Replacement reasons and explanations	Due to internal job adjustment at Deloitte & Touche, the current engagement partner Ming-Chung Hsieh was replaced by Rich Chih.		
Describe whether the Company terminated or the CPA did not accept the appointment	Parties		
	Status	CPA	The Company
	Termination of appointment	Not available	Not available
	No longer accepted (continued) appointment	Not available	Not available
Other issues (except for unqualified issues) in the audit reports within the last two years	None		
Differences with the company	Yes	-	Accounting principles or practices
		-	Disclosure of Financial Statements
		-	Audit scope or steps
		-	Others
	None	✓	
	Remarks/specify details:		
Other Revealed Matters	None		

3.5.2 Regarding the successor CPA

Name of accounting firm	Deloitte & Touche
Name of CPA	Rich Chih and Roy Weng
Date of appointment	Approved by BOD on August 4, 2017
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement.	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

3.5.3 The Reply of Former CPAs on Article 10.5.1 and Article 10.5.2.3 of the Standards: None.

3.6 Chairman, Presidents, and Financial or Accountant Managers Who Served at the Accounting Firm of the CPAs or Its Affiliates in the Most Recent Year: None.

3.7 Changes in Shareholding Transfer or Shareholding Pledge by Directors, Supervisors, or Managers, and Major Shareholders in the Most Recent Year and as of the Date of the Publication of the Annual Report:

3.7.1 Changes in shareholding transfer by directors, supervisors, or managers, and major shareholders (the Company does not have supervisors)

Unit: shares

Title	Name	2017		As of April 13, 2018	
		Changes in shareholding	Changes in pledged shareholding	Changes in shareholdin	Changes in pledged shareholding
Chairman & GM	Wang, Shih-Chung	—	—	—	—
Director & GM	Lan, Shun-Cheng	24,327	—	(10,000)	—
Director	Wang, Hai-Ming	—	—	—	—
Director	Lin Chiang-Ti	(296,148)	(540,000)	(282,000)	—
GM of Mainland China Business Group	Li, Huai-Wen	—	—	—	—
Director & CFO	Tsao, Yung-Hsiang	2,259	—	—	—
Independent Director	Lin, Ku-Tung	—	—	—	—
Independent Director	Chang, Bao-Guang	—	—	—	—
Independent Director	Leong Kam Son	—	—	—	—
GM of AIRTAC USA CORPORATION	Chen, Zhi-Zhong	—	—	—	—
GM of AirTAC Jiangsu	Xu, Guan-Hua	—	—	—	—
Assistant GM of AirTAC Guangdong	Huang, Yao-De	(13,000)	—	—	—
Deputy GM of the R&D Center	Hsiao, Yu-Chien	—	—	—	—
Deputy Sales GM of AirTAC China	Zhang, Xian-Ming	—	—	—	—
Deputy Sales GM of AirTAC China	Zhou, Hong-Yuan	(371,000)	—	—	—
Deputy Sales GM of AirTAC China	Dai, Jia-Xing	—	—	—	—
Chief Audit Officer	Lin, Chian-Ming	(3,440)	—	—	—
Chief Audit Officer	Chiang, Hsin-Chih	—	—	200	—
10% shareholder	Ding Kan Investment Ltd.	1,193,530	(200,000)	—	(500,000)

Note: Lin, Chien-Ming had resigned Chief Auditor Officer on 2017.10.31. The board of director appointed Chiang, Hsin-Chih Chief Auditor Officer of the Group on 2017.11.3

3.7.2 The counterparty of share transfer is a related party: None.

3.7.3 The counterparty of share pledge is a related party: None.

3.8 Information Disclosing the Relationship of the Top Ten Shareholders Who Are Related Parties According to Financial Accounting Criteria No.6:

Unit: shares; April 13, 2018

Name	Own shareholding		Shareholding of spouse and Shares held by spouse and minor children		Shares held in other's name		The title or name and relationship of top ten shareholders if they are a related party as defined in the Statement of Financial Accounting Standards No. 6, or the spouse or a relative within the second degree of kinship to another		Remark
	Shares	%	Shares	%	Shares	%	Title (name)	Relationship	
Ding Kan Investment Ltd.	27,902,495	14.76%	—	—	—	—	Proud Unit Company Ltd./Lin Shu-Mei	Similar shareholding structure / Spouse of a Director	Note
YHZ Ltd.	11,606,180	6.14%	—	—	—	—	—	—	Note
Express Brilliant Ltd.	10,000,000	5.29%	—	—	—	—	Lan, Shun-Cheng	Director	Note
Fubon Life Insurance Co., Ltd.	6,045,537	3.20%	—	—	—	—	—	—	None
Chen, Jui-Lung	5,185,753	2.74%	—	—	—	—	—	—	None
Lin, Shu-Mei	4,877,162	2.58%	—	—	—	—	Ding Kan Investment Ltd./ Proud Unit Company Ltd.	Spouse of a Director	None
Blackrock Global Funds-Asian Growth Leaders under HSBC	4,319,750	2.29%	—	—	—	—	—	—	None
Proud Unit Company Ltd.	3,570,769	1.89%	—	—	—	—	Ding Kan Investment Ltd./ Lin, Shu-Mei	Similar shareholding structure / Spouse of a Director	Note
Lan, Shun-Cheng	3,490,000	1.84%	—	—	—	—	Express Brilliant Ltd.	Director	None
Investment Account of Central Bank of Saudi Arabia Partners under the trust of JPM	3,363,518	1.78%	—	—	—	—	—	—	None

Note: All are trust accounts.

3.9 The Amount of Shares and Total Share of Stake in the Same Invested Company Owned by the Company, Directors, Supervisors, Managers of the Company, and the Enterprises Directly or Indirectly Controlled by the Company.

Unit: shares; %

Investment	Investment by the Company		Investment by directors, supervisors, managers and companies controlled directly or indirectly by the Company		Total investment	
	Shares	%	Shares	%	Shares	%
Airtac Industrial (Hong Kong) Limited	21,155,302	100%	—	—	21,155,302	100%
Airtac Trading (Hong Kong) Limited	7,000,000	100%	—	—	7,000,000	100%
Instant Reach International Limited	1	100%	—	—	1	100%
Airtac Holding (Singapore) Pte. Ltd.	15,000,000	100%	—	—	15,000,000	100%
Ningbo AirTAC Automatic Industrial Co.	Note	100%	—	—	Note	100%
Guangdong AirTAC Automatic Industrial Co.	Note	100%	—	—	Note	100%
AirTAC (China) Co., Ltd.	Note	100%	—	—	Note	100%
AirTAC (Jiangsu) Automation Co., Ltd.	Note	100%	—	—	Note	100%
AirTAC Industrial Co.	69,435	69.435%	—	—	69,435	69.435%
ATC(ITALIA)S.R.L	4,000,000	100%	—	—	4,000,000	100%
Airtac International (Singapore) Pte. Ltd.	12,500,000	100%	—	—	12,500,000	100%
Airtac Co., Ltd.	2,000	100%	—	—	2,000	100%
AIRTAC USA CORPORATION	1,500	100%	—	—	1,500	100%
Airtac Industrial (Malaysia) Sdn. Bhd.	1,000,000	100%	—	—	1,000,000	100%
Airtac Industrial Co., Ltd.	1,000,000	100%	—	—	1,000,000	100%
Guangdong Airtac Machinery Equipment Co., Ltd.	Note	100%	—	—	Note	100%
Airtac (Tianjin) Technology Co., Ltd.	Note	100%	—	—	Note	100%

Note: The subsidiaries in China are limited companies that do not issue shares.

3.10 The Procedure of Dealing with Corporate Key Information

The Company settled “the management procedure of dealing with internal key information and guarding inside trading”, which the responsible department would regularly inform to remind board directors, managers and employees release corporate key information in law and the related regulations. Besides that, to surely make them understand and follow the related regulations, there will be held avocation educated to reduce the inside trading risks at least once per year.

4. Capital Overview

4.1 Capital and Shares

4.1.1 Sources of capital

1. Types of shares

April 13, 2018; Unit: shares

Type of shares	Registered capital			Remark
	Outstanding shares	Unissued shares	Total	
Registered common shares	189,024,998	10,975,002	200,000,000	Listed stocks

2. Capital formation

Unit: \$/ Share

Year/ Month	Issuing Price	Authorized capital		Paid-in capital		Remark		
		Shares	Amount	Shares	Amount	Sources of capital	Capital Increased by Assets other than Cash	Others
2009.09	US\$ 1	20,000,000	US\$ 20,000,000	1	US \$ 1	Capitalization by cash	—	—
2009.10	US\$ 1	20,000,000	US\$ 20,000,000	2	US \$ 2	—	Long-term Investment	—
2009.12	US\$ 1	20,000,000	US\$ 20,000,000	3	US \$ 3	—	Long-term Investment	—
2009.12	US\$ 1	20,000,000	US\$ 20,000,000	19,999,996	US \$ 19,999,996	Capitalization of capital surplus	—	—
2010.04	NTD 10	200,000,000	2,000,000,000	64,699,999	NTD 646,999,990	(1) The originally authorized capital of US\$20,000,000 is changed to NTD 2,000,000,000. (2) Originally issued USD\$20, 000,000 capital is converted to NTD 647,000,000.	—	Note 1
2010.06	NTD 10	200,000,000	2,000,000,000	132,999,998	NTD 1,329,999,980	Capitalization of capital surplus in the amount of NTD 683,000,000.	—	Note 2
2010.12	NTD 10	200,000,000	2,000,000,000	149,999,998	NTD 1,499,999,980	Issuance of new shares in the amount of NTD170,000,000 for capitalization.	—	Note 3
2013.06	NTD 10	200,000,000	2,000,000,000	160,499,998	NTD 1,604,999,980	Capitalization of earnings in the amount of NTD 105,000,000.	—	Note 4
2013.11	NTD 10	200,000,000	2,000,000,000	170,499,998	NTD 1,704,999,980	Issuance of new shares in the amount of NTD100,000,000 for Capitalization in cash.	—	Note 5
2015.06	NTD 10	200,000,000	2,000,000,000	179,024,998	NTD 1,790,249,980	Capitalization of earnings in the amount of NTD 85,250,000.	—	Note 6
2017.08	NTD 10	200,000,000	2,000,000,000	189,024,998	NTD 1,890,249,980	Issuance of new shares in the amount of NTD100,000,000 for Capitalization in cash.	—	Note 7

Note 1: Passed in shareholders' meeting held on 2010.04.17.

Note 2: Capitalization of capital surplus had been approved in shareholders' meeting held on 2010.06.29.

Note 3: Capitalization of issuing new shares for cash had been approved in shareholders' meeting held on 2010.06.29.

Note 4: Capitalization of earnings had been approved in shareholders' meeting held on 2013.05.22.

Note 5: Capitalization of issuing new shares for cash had been approved in shareholders' meeting held on 2013.05.22.

Note 6: Capitalization of earnings had been approved in shareholders' meeting held on 2015.05.28.

Note 7: Capitalization of issuing new shares for cash had been approved by board of directors' meeting held on 2017.03.29.

3. Information of Shelf Registration: None.

4.1.2 Shareholder structure

April 13, 2018; Unit: Shares

Amount \ Makeup of shareholders	Government institutions	Financial institutions	Other institutions	Individuals	Foreign institutions and foreigners	Total
Number of Shareholders	-	13	131	1,384	631	2,159
Shareholding	-	7,180,037	10,722,020	23,892,054	147,230,887	189,024,998
Shareholding ratio (%)	-	3.80%	5.67%	12.64%	77.89%	100.00%

Note 1: Calculated based on capital after issue of new shares for cash capital increase approved in the board of directors held on 2017.03.29.

Note 2: China investors own 6.71% of stocks.

4.1.3 Distribution of shareholding

1. Common Shares

April 13, 2018; unit: shares

Classification of shareholding	Number of shareholders	Shareholding	Shareholding ratio (%)
1 ~ 999	730	85,183	0.05%
1,000~ 5,000	685	1,167,777	0.62%
5,001~ 10,000	131	1,003,817	0.53%
10,001~ 15,000	76	963,437	0.51%
15,001~ 20,000	44	788,361	0.42%
20,001~ 30,000	81	2,016,764	1.07%
30,001~ 40,000	44	1,557,649	0.82%
40,001~ 50,000	37	1,655,434	0.88%
50,001~ 100,000	101	7,350,756	3.89%
100,001~ 200,000	96	13,964,237	7.39%
200,001~ 400,000	65	18,468,786	9.76%
400,001~ 600,000	18	8,726,803	4.62%
600,001~ 800,000	16	10,695,283	5.66%
800,001~ 1,000,000	6	5,150,017	2.72%
>1,000,001	29	115,430,694	61.06%
Total	2,159	189,024,998	100.00%

2. Preferred Shares: No preferred share being issued by the Company.

4.1.4 List of major shareholders: Names, shares and percentage of shareholding of shareholders with more than 5% or top ten of Company's shares:

April 13, 2018; Unit: shares

Shareholding Name of major shareholder	Total shares held	Percentage of ownership
Ding Kan Investment Ltd.	27,902,495	14.76%
YHZ Ltd.	11,606,180	6.14%
Express Brilliant Ltd.	10,000,000	5.29%
Fubon Life Insurance Co., Ltd.	6,045,537	3.20%
Chen, Jui-Lung	5,185,753	2.74%
Lin, Shu-Mei	4,877,162	2.58%
Blackrock Global Funds-Asian Growth Leaders under HSBC	4,319,750	2.29%
Proud Unit Company Ltd.	3,570,769	1.89%
Lan, Shun-Cheng	3,490,000	1.84%
Investment Account of Central Bank of Saudi Arabia Partners under the trust of JPM	3,363,518	1.78%

4.1.5 Information on market price, net worth per share, earnings, dividends and related matters in the most recent fiscal two years:

Unit: NTD; 1,000 shares

Year			Unit: NTD, 1,000 shares	
Item			2016	2017
Market price per share	High		292.00	536.00
	Low		129.50	238.00
	Average		220.82	377.75
Net worth per share	Basic		59.43	84.39
	Diluted		53.94	(Note 1)
Earnings per share	Weighted average shares		179,025	182,775
	Earnings per share		10.72	18.07
Dividends per share	Cash dividend		5.49787079	7.3952(Note 1)
	Stock dividend	Earnings (NTD)	—	—
		Capital surplus (NTD)	—	—
	Accumulated unpaid dividend (Note 2)		—	—
Analysis for return on investment	Price-earnings ratio (Note 3)		20.60	20.9
	Price-dividend ratio (Note 4)		40.15	51.08
	Cash dividend yield (Note 5)		2.49%	1.96%

Note 1: The appropriations of earnings for 2017 is to be resolved by the general Shareholders' meeting.

Note 2: If the term of the equity securities released is to guard the current year retained dividends accumulated to the year dated with earning profits shall be revealed in accumulated current year due unpaid dividends.

Note 3: Price-earnings ratio = Year's average per share closing price / earnings per share.

Note 4: Price-dividend ratio = Year's average per share closing price / cash dividend per share.

Note 5: Cash dividend yield = Cash dividend per share / year's average per share closing price.

4.1.6 Dividend policy and the status of implement:

1. Dividend policy set out in the Company's Articles of Association

According to the Company's amended Articles of Association passed in general shareholders' meeting held on May 16, 2017, the proposal for distribution of profits shall begin with the Company's Annual Net Income after tax and offset its losses in previous years that have not been previously offset; then set aside a statutory capital reserve or special capital reserve, if one is required, in accordance with the Applicable Public Company Rules or as requested by the authorities in charge; and then may set aside 2% to 5% of the profits proposed to be distributed, as bonus to employees of the Company. The Directors shall specify the exact percentages or amounts to be distributed as bonuses to employees in preparing the proposal for distribution of profits, and the Members may amend such proposal prior to its approval. A Director who also serves as an executive officer of the Company and/or its Subsidiaries may receive a bonus in his/her capacity as a Director and a bonus in his/her capacity as an employee.

Any balance left over may be distributed as Dividends in accordance with the Statute and the Applicable Public Company Rules, and after taking into consideration of the profits of the current year and the capital structure of the Company, any future funding requirement and long term financial planning, the distribution of retained earnings may proceed by way of cash dividend or by applying such sum in paying up in full unissued Shares for allotment and distribution credited as fully paid-up pro rate to the Members. Unless otherwise resolved by Directors at the board meeting and the Members in general meeting by an Ordinary Resolution, the amount of profits distributed to Members shall not be lower than 50% of profits (after tax) of the then current year and the amount of cash dividends distributed shall not be less than 10% of the profits proposed to be distributed of the then current year.

2. Proposed dividend distribution for the year

According to the 2017 dividend distribution plan passed by the board of directors in meetings held on March 12, 2018, the Company will distribute cash dividends in the amount of RMB\$ 1.6 per share, equivalent to approximately NTD\$ 7.3952 per share.

4.1.7 The effects of stock dividends proposed by shareholders' meeting, on the operational performance and earning per share: None.

4.1.8 Employees' compensation and remuneration for directors and supervisors (the Company does not have supervisors):

1. Percentages and scope of employee compensation and remuneration for directors and supervisors provided in Company's Articles of Association:

The distribution of profits shall begin with the Company's Annual Net Income after tax and offset its losses in previous years that have not been previously offset; then set aside a statutory capital reserve or special capital reserve, if one is required, in accordance with the Applicable Public Company Rules or as requested by the authorities in charge; and then may

set aside 2% to 5% of the profits proposed to be distributed, as bonus to employees of the Company. The Directors shall specify the exact percentages or amounts to be distributed as bonuses to employees in preparing the proposal for distribution of profits, and the Members may amend such proposal prior to its approval. A Director who also serves as an executive officer of the Company and/or its Subsidiaries may receive a bonus in his/her capacity as a Director and a bonus in his/her capacity as an employee. The distribution ratio for employee bonuses and remunerations to directors and whether employee bonus distributed by share or cash shall be approved by the resolution of directors' meeting, with above two-thirds attending directors and over a half of attending directors' agreement. The result of resolution shall be proposed in shareholders' meeting.

2. Accounting treatment for the difference between accrual and actual payment for employee compensation and remuneration for directors and supervisors:
 - (1) The Company's directors do not receive distribution of earnings.
 - (2) At the end of a fiscal year, significant changes in the amounts of employee bonus and remuneration to directors as decided by the board of directors will be recorded under the year's expense. If the amounts again change on the date earnings the earnings distribution plan is adopted in a shareholders' meeting, the difference will be treated as changes in accounting estimates and recorded in the year the shareholders adopt the resolution.
 - (3) If it is resolved in shareholders' meeting that employee compensation will be distributed in shares, the number of the employees' compensation will be determined by dividing the amount of the employees' compensation resolved by the closing price per share on the day immediately preceding the meeting of the Company's shareholders.
3. Information on proposal of the board of directors to issue employee bonus:
 - (1) Payout of cash bonus for employees, stock dividend, and compensations for board directors and supervisors. Cash compensation for employees amounted to RMB 19,558,000.
 - (2) Earnings per share after the proposed payout of employee bonus and compensations for board directors and supervisors: Employee bonus expense has been provided in the 2018 financial statements, and earnings per share for the year are NTD 18.07 on such basis.
 - (3) The ratio of the proposed distribution of employee stock dividend payments to the total amount of the net income and employee bonus on the proprietary or individual financial statements : None. Earnings per share after the proposed payout of employee bonus and compensations for board directors and supervisors: Employee bonus expense has been provided in the 2018 financial statements, and earnings per share for the year are NTD 7.64 on such basis.
4. Actual dividends for employee compensations and remuneration for board directors and supervisors of previous year: The earnings of 2016 were approved by the board of directors' meeting and shareholders' meeting held in 2017, and the employee compensations was RMB 18,269,000.

- 4.1.9 Repurchase of the bank's shares: None.**
- 4.2 Issuance of Corporate Bonds: None.**
- 4.3 Issuance of Preferred Shares: None.**
- 4.4 Issuance of Global Depositary Receipts (GDR): None.**
- 4.5 Employee Stock Options: None.**
- 4.6 Restricted Right Shares for Employees : None.**
- 4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.**
- 4.8 Financing Plans and Implementation : No plans outstanding to valued securities or private equities released or plans finished but the effects not appeared yet during the recent three years.**

5. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

1. Main areas of business operations

The Group engages in the manufacture and sale of pneumatic control components, pneumatic actuator, air preparation units and pneumatic accessories.

2. Revenue breakdown by product

Unit: NT\$ thousands; %

Product	2016		2017	
	Amount	% of revenue	Amount	% of revenue
Actuator	4,974,266	46.83%	6,526,727	47.58%
Control components	2,687,642	25.30%	3,338,410	23.34%
Air preparation units	824,155	7.76%	1,000,909	7.30%
Others	2,135,555	20.11%	2,851,859	20.78%
Total	10,621,618	100.00%	13,717,905	100.00%

3. Main products (services)

Actuator (cylinder)	Standard cylinder, miniature cylinder, compact/ultra-compact cylinder, multi-mounting cylinder, twin rod and tri-rod cylinder, slide table cylinder, magnetic coupled rodless cylinder, rotary table cylinder, air gripper, twist clamp cylinder, clamp cylinder, unclamping cylinder, stopper cylinder, accessories
Control components (valve)	Solenoid valve, air valve, manual control valve, mechanical control valve and other valve, fluid control valve
Air preparation unit	F.R.L. combination, FR.L. combination, filter & regulator, filter, regulator, lubricator, soft start-up valve, safe on-off valve, air distribution block, drain 、 pressure gauge
Accessories	Shock absorber, polyurethane tubing, fitting, silencer, speed controller
Sensor components	Standard digital pressure switches

4. New products (services) development

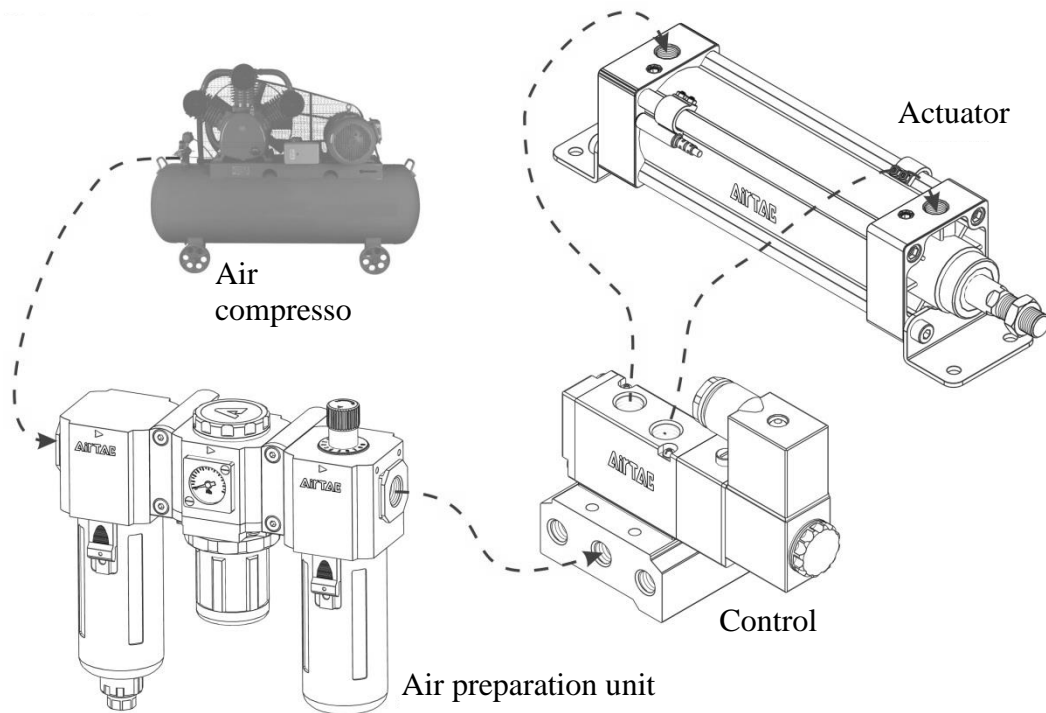
- (1) Actuator(cylinder): QDK Plane Rotary Clamp Cylinder, Large-Diameter Gripper, SE Accessories TC Rack, Tight Cylinder, MBLC Cylinder, RMS10 Cylinder, Economy ISO Standard Cylinder, JCK16~32(H) Clamp Cylinder, Pin Clamp Cylinders, MCK25~32 Clamping Cylinder, Cylinder Directive Framework, Large Tri-Rod Cylinder, Non-Rotating Cylinder, Fine Lock Cylinder, Oblate Cylinder, Lying Horizontal Stopper Cylinder, Symmetrical Slide Cylinder, Mechanical Rodless Cylinder, Small Vane-Swing Cylinder, Large Vane-Swing Cylinder, Table Frame-Swing Cylinder, Electric Cylinder, HFCQ Air gripper and HFK Air gripper.
- (2) Control components (valve): 5V Solenoid Valve, 6V Solenoid Valve, 6S Serial Transmission System, 6D Serial Transmission System, 7S Serial Transmission System, Shuttle Valve, Two Pressure Valve, Fast Exhaust Valve, Hydronic Valve, Double Air Valve, Empty Pressure Pilot Operated Non-Return Flow Control Valve, CPV10 Pilot Operated Valve and High Precise Proportion Valve.
- (3) Preparation unit: Brand New G-Series Product, Precision Regulator Screening Program, Precise Pressure Relief Valve and GPF Mist Separator.
- (4) Sensor component: Micro Electric Pressure Switch, Electric Magnetic Switch, Reed Magnetic Switch, Massive Magnetic Switch, Flow Switch and High Level Digital Pressure Switch.
- (5) Transmission Unit: Roller Bearing, Miniature Linear Guide, Standard Linear Guide and Ballscrews.
- (6) Others: Compact One-Touch Fitting and Floating Connector above M22.

5.1.2 Industry overview

1. Description of pneumatic components

“Pneumatic” is an abbreviation for “pneumatic technology” or “pneumatic transmission and control”. Pneumatic technology is a modern-day and practical technology that uses compressor as power source. The compressed air generated after it is treated by an air preparation unit is used as a working medium, where a control component (directional control valve) is used to change the inflow/outflow frequency, speed, and direction of the compressed air, and an actuator (cylinder) is used to convert the energy of compressed air into kinetic energy to drive a predetermined movement.

The Working of Pneumatic System



Pneumatic technology is an important means to achieve production control and automatic control. It offers the advantages of energy saving, pollution free, high efficiency, low cost, safety, reliability, and structural simplicity. Pneumatic components are used extensively in machinery and production lines, mainly as key components in mechanical automation system. The extensive applications of pneumatic technology today symbolize the advances the pneumatic industry has gained. It is also the must-tread path to industrial upgrade.

In the past, pneumatic technology was used simply in low-cost automation process to save labor. In recent years, its applications broaden along with the advancement of the pneumatic technology itself and its support technologies. A few representations of pneumatic technology are discussed as follows:

- (1) A classic example of electro-mechanical integration is a control system composed of “computer remote control + programmable controller + sensor + pneumatic component.” In the example of automotive industry, such systems are used in welding production line, fixtures, robot, conveyor, assembly line, painting line, generator, and tire manufacturing.
- (2) Composite integration that helps reduce the use of cables (e.g. serial transmission), piping and components to save space, simplify assembly/disassembly process and improve work efficiency.
- (3) Production automation and parts processing and assembly on mechanical processing line, such as the handling, inversion, positioning, clamping, feeding, unloading, assembly,

cleaning and testing of workpieces.

- (4) Automated metering and packaging of powder, granulated and lump materials in fertilizer, chemical, food, pharmaceutical and bioengineering industries, automated cigarette rolling and packaging in tobacco industry, and automated metering and filling of viscous liquids (e. g. paint, ink, cosmetic and toothpaste) and toxic gas (e.g. gas).

2. International pneumatic component technology

The union of fluid, microelectronics and computer technologies charts a new horizon for pneumatic technology. According to reported data, 95% production machinery, 90% numerically controlled machining center, and 95% automated production lines around the world now adopt pneumatic technology. Pneumatic technology is applied in many fields of the national economy. The level of pneumatic applications has become an important yardstick of a country's industrial level.

3. Market demand analysis

In China today, agriculture, hydraulic engineering, transportation, Medicare, electric information, energy saving/environment protection, new energy...etc. industries are experiencing faster growth, that also jack up the demands for mechanical equipment. In most cases, mechanical equipment calls for large quantities of high-performance and highly reliable pneumatic components.

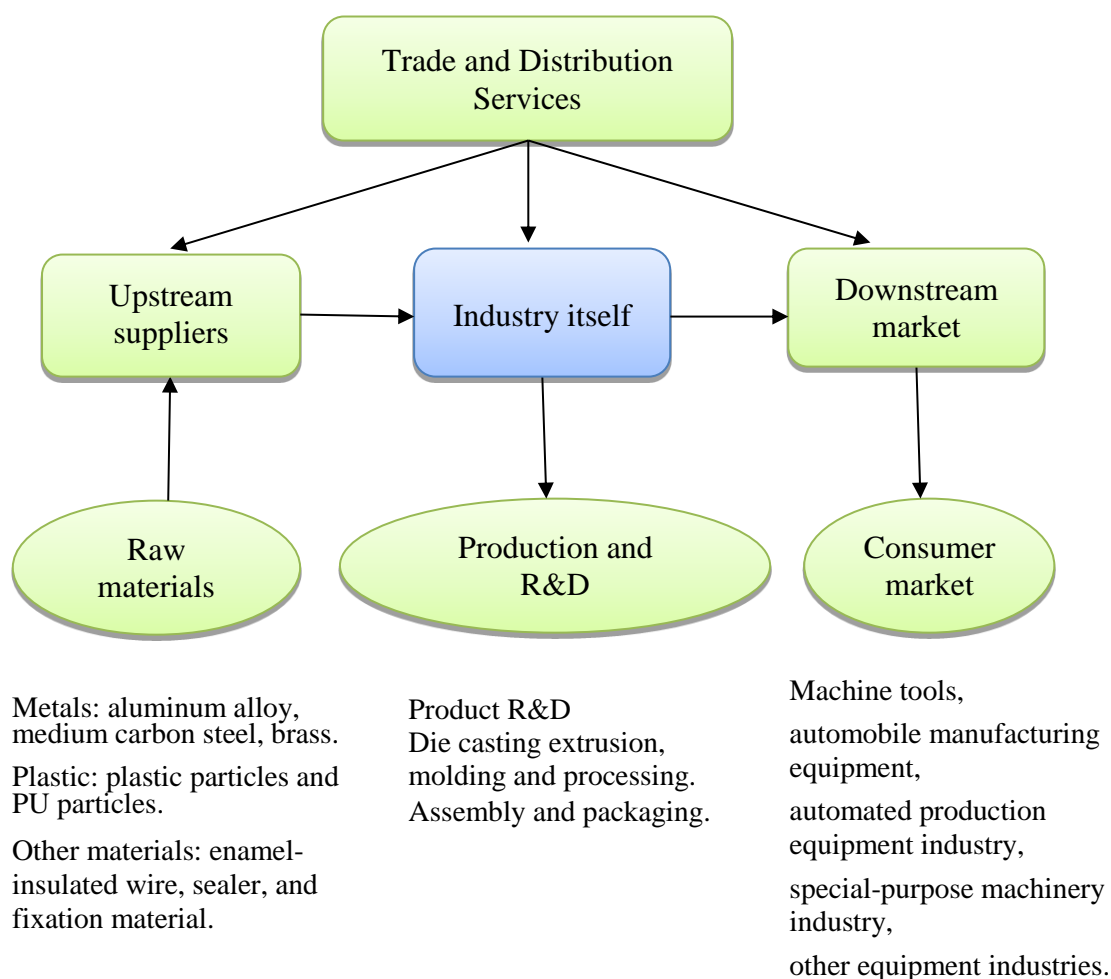
Along with changes in the macro environment of the mechanical industry, specifically agricultural machinery, electronic products manufacturing, automotive manufacturing, Medicare instruments, environment protection machinery, CNC machine. In addition, pneumatic products will have promising outlook in printing packaging, plastic machinery, instrument production equipment, woodwork machinery, rubber machinery and gaming machine equipments.

As the China population bonus got weaker further and the raise of product quality requests, labor intensive manufacturing modes are speeding up to the automation manufacturing. "Manpower replaced by machines" had been already the trendy wind direction to China enterprises in next.

4. Pneumatic component industry chain

The Company is specialized in the R&D, manufacture and sale of pneumatic components that are used extensively in machine tools, automated production equipment, automobile manufacturing equipment, and special-purpose machinery. As the Company continues to develop new products, the fields of application for the Company's products also continue to expand.

The Company is in the mid-stream (the industry itself) in the pneumatic component industry chain. Its upstream comprises suppliers of aluminum, steel, copper and plastic materials. The midstream manufacturers produce pneumatic components, using die casting, extrusion, injection molding and punching technologies. The downstream are users in machinery, equipment and related application fields.



(1) Upstream material supplies

Raw materials used for the production of pneumatic products are classified as follows:

Metal: aluminum alloy, zinc alloy, steel materials, copper materials.

Plastic: PU particles, color masterbatch, POM, PBT.

Others: enamel-insulated wire, sealer, lubricating material and magnetic materials.

(2) Downstream industries

The downstream industries are consumer markets of pneumatic products, primarily machine tool, automobile manufacturing equipment, automated production equipment, special-purpose equipment and other equipment industries.

5. Market competition

Different industries need different kinds of pneumatic products. The costs of R&D, equipment, brand establishment, and marketing arising thereof also differ significantly. That is why some brandname pneumatic component manufacturers would command large market shares. Thus even though there are a large number of manufacturers on the pneumatic component market, the number of brandname manufacturers that would be considered as competitor is limited. In China's market, the top three manufacturers are SMC (Japan), AirTAC (Taiwan), and FESTO (Germany). Other world leading brands in the China market, including CKD (Japan), Norgren (UK), Parker (USA). And the rest of the Taiwanese and Kreen brands do not have major competitiveness in the medium to high end markets due to poor technology and narrow sales network.

5.1.3 Technology and R&D overview

1. Technical levels of Company products and R&D

The Company has been keen on nurturing R&D personnel, investing in R&D and creating a corporate environment conducive to innovation. Since 2007, 85 new products developed by the Company, including Regulator, Slide Table, Magnetic Coupled Rodless Cylinder have been included in the Ningbo City New Product R&D Initiative. The Company's R&D Center was also rated as a provincial level R&D Center and provincial level technology center and provincial level enterprise institute. The Company currently owns 40 appearance patents (e.g. Pneumatic Preparation Component (GL300 Oil Feeder), 61 utility model patents (e.g. Rotary Cylinder), and 19 invention patents (e.g. Regulating Valve, Absorbers). In 2017, 10 invented and practical new patents of new developed products, such as 7V Solenoid valve, Rodless magnetic cylinder, etc., were granted to proceed by Intellectual Property Office.

AirTAC is currently developing new products in line with market needs and outpacing customer needs to set a solid foundation for the Company in market competition. In 2017, AirTAC prepared to build the the second construction in Tainan plant and the new factory in Ningbo, 170,000 square feet. These two plants will be used to produce high-end pneumatics and electromotive components. AirTAC has invested a lot of capital to hire professional personnel in linear guide area and to design and produce the linear guide products with high quality and fair price. The linear guide will be utilized in the new products of AirTAC and make the products of AirTAC more diverse.

In the near future, the Company will focus on upgrading the level and precision of existing products and developing pneumatic products for application in high-tech industries in the efforts to develop more advanced products in terms of materials, technology and quality.

2. R&D personnel and education background

Unit: persons

Year	2016	2017	March 31, 2018
Education			
Master and higher	40	47	36
College	244	300	295
High school	101	100	110
Total	385	447	441

3. R&D expenditure in the last five years

Unit: NT\$ thousands

Item	2013	2014	2015	2016	2017
R&D expense	200,714	286,026	290,176	333,726	380,519
Net income	7,300,291	8,378,961	8,797,169	10,621,618	13,717,905
% of net income	2.75%	3.41%	3.30%	3.14%	2.77%

4. Successfully developed technologies or products in the past five years

Year	Product
2013	HLH Compact Slide Cylinder
	HLS Compact Slide Cylinder (Roller bearing)
	HLQ Compact Slide Cylinder (Recirculating linear ball bearing)
	STW Slide Table Cylinder
	SC Standard Cylinder (Big bore size)
	ACQ Compact Cylinder (Big bore size)
	RMT Rodless Magnetic Cylinder (With guide)
	RMTL Rodless Magnetic Cylinder (With exactitude guide)
	NRV Non-return Valve
	Preparation Unit-G Series (Metallic bowl)
	7V/7A Solenoid Valve
	B06 Special Cylinder for Battery Industry
	B07-TCM Special Cylinder for Weld Industry
	ESV/EAV600 ISO Valve
	MPG Plate Cylinder
	MU Mini Free-mount Cylinder
	PBR Pen Size Cylinder
	TACQ Cylinder with Guide
	ACE/TACE Compact Cylinder
	Connectors made in house
2014	TACQ Compact Cylinder With Guider Type
	RMTL Magnetic Coupled Rodless Cylinder
	Fast Joint Fitting/Speed Control Valve
	MG/MGC Stainless-Steel Mini Cylinder

Year	Product
	3V2/3V3 Solenoid Valve
	SDR Regulator
	ADW Dripleg Drain
	HRQ (Micro/Large) Rotary Table Cylinder
	HFP Mechanical Horizontal Air Gripper
	HFR 180 Degree Air Gripper
	Unclamping Cylinder
	5V/7V Pilot Valve
	Fast Joint Fitting
	Standard Digital Pressure Switch
2015	TCM Tri Rod Cylinder (Small bore size)
	TC Tri Rod Cylinder (Big bore size)
	MBL Mini Cylinder (Aluminum)
	MPE Threaded Cylinder
	HLQ/SL Symmetrical Slide Table Cylinder
	JCK Power Clamp Cylinder
	PCV Pilot Check Valve
	3V2M Solenoid valve with manifold
2016	HFC Series Air Gripper
	HFK Air Gripper(parallel style--ball bearing)
	DPS Digital Display Pressure Switch
	DPC Minitype no Display Pressure Switch
	SE Series
	BSC/BCE Enclasp Type Cylinder
	RMS10 Magnetic Coupled Rodless Cylinder
	QCK Rotary Clamp Cylinder
	Stainless Steel Joint
	QDK Horizontal Rotary Clamp Cylinder
	HFT Air Gripper (Wide Style)
	MU4/12/16/20 Mini Free Mount Cylinder
	GPF Oil Mist Filter
	GPR Precision Regulator
	MBLC Double Acting with Cushion Type Cylinder
	5V/5A Solenoid valve
	New Oil Buffer
2017	DMS Solid State Sensor
	CMS Reed Sensor
	CPV15 Pilot Valve
	CPV15S Integrated Solenoid Valve

Year	Product
	CPV15 Manifold
	AQK/BAQK50 Pin Clamp Cylinder
	JCK Series Power Clamp Cylinder
	7V Solenoid Valve
	Floating Joint
	UND54
	PA6/PA12 Tube
Up to the date of annual report	LGC Crossed Roller Way
	LRM Miniature Linear Guide
	7S Integrated solenoid valve
	SAI ISO Cylinder
	SAU Standard Cylinder
	BSAI Enclasp Type Cylinder
	MCK Clamping Cylinder
	GA Series
	GVR Pressure Controllers
	PTL Speed Controllers
	HLF Low profile Precision Slide Table Cylinder

5.1.4 Short and long-term development strategies and business plans

1. Short-term development strategy and plan

(1) R&D strategy and plan

- A. Upgrade the performance of existing product series by improving various functions tailored to client's use habit and feedback.
- B. Develop more products for industries that have demands for pneumatic products.

(2) Marketing strategy and plan

- A. Proactively offer professional assistance to clients to help them improve the efficiency of their production equipment, and help them in production line planning and cost saving to win client appreciation.
- B. Salespersons assist the client to increase the efficiency of producing machine by offering professional techniques.
- C. Vie for bigger market share with outstanding products and professional salespersons and create a win-win situation with clients, while achieving certain profit margin.

(3) Production strategy and plan

- A. Search for qualified and steady suppliers. As pneumatic components are constantly exposed to acidic or dirty gases when they work in an industrial environment and tend to break down easily, it is necessary to implement rigorous control at the source of production, i.e. selection of raw materials, to maintain the quality of components.
- B. Have a firm grip on costs and production efficiency and conduct onsite check regularly

to ensure production optimization.

(4) Operating and financial strategy and plan

Improve management performance, stimulate employee potentials, and shore up the internal organization.

2. Long-term development strategy and plan

(1) R&D strategy and plan

A. Gear R&D towards the development of products for application in high-tech industries, and that are more compact, stable, and precise and have more complex mechanism. Upgrade from the current mid-end applications to applications in high-tech machinery and biotech machinery.

B. Build up system integration capability to provide customers with software/hardware design, whole-plant design and consulting services.

(2) Marketing strategy and plan

A. Cultivate international marketing personnel, build rapport with local customers, readily grasp market movement and discern the directions of product development.

B. Establish a worldwide sales network and set up sales centers to extend and reach the brand awareness and recognition worldwide.

(3) Production strategy and plan

A. Continue to search for qualified suppliers and build a long-term relationship with important suppliers to obtain reasonable prices and lower the costs of production.

B. Pick a suitable location to build up industry cluster so as expand capacity.

(4) Operating and financial strategy and plan

A. Promote the concept of internationalization and build the management capability of a multinational enterprise within the organization, and actively cultivate an internationalized workforce to strive towards the goal of becoming a multinational enterprise.

B. Diversify the capital raising channels, strengthen the financial structure and group constitution.

C. Step up risk management and operate with the tenets of stability, high efficiency and agility.

5.2 Market, Production and Sales Overview

5.2.1 Market analysis

1. Revenue breakdown by region

Unit: NT\$ thousands

Region	2016		2017	
	Amount	%	Amount	%
Greater China (Note)	9,993,270	94.08%	13,024,356	94.94%
Others	628,348	5.92%	693,549	5.06%
Total	10,621,618	100.00%	13,717,905	100.00%

Note: Including Revenue in Mainland China and Taiwan

2. Market share

According to the statistic of the China Hydraulics Pneumatics & Seals Association, the revenue of pneumatic components of main brands was RMB 15 billion in Mainland China in 2017. In the case of continuous economic growth slowdown and increasing competition in the industry, the company continued to strengthen the core competitiveness by strengthening the construction of marketing channels, improve service capabilities, the implementation of more competitive pricing strategy. Sales in mainland China remained growth in 2017 and can be more than RMB 2.8 billion, an increase of 40%. The Company's market share in Mainland China in 2017 was estimated to be 19%. The Company is expected to expand the market share and maintain the industrial leading position in 2018 after completing the key developing projects.

As the scale of traffic industry, car industry and shipbuilding industry gradually expand, the demands of liner guide will rise rapidly. The liner guide rail industry has huge potential. AirTAC also devotes to extend product line and involve into new rising industry. In the first half year of 2017, AirTAC is planning to get into liner guide rail industry. The domestic sales of linear guide in Mainland China was 28 billion in 2017. The demands of linear guide continue rising explosively. The delivery term of main brands are be putting off in 2017. AirTAC will make effort in researching and developing new products, quality assurance, increasing service level and selling arrangement. It is believed that AirTAC will expand fast and establish a new benchmark in linear guide industry in 2018.

3. Supply in pneumatic component market in the future

As China's pneumatic market plays an increasingly significant role in the world market, the labor charge in Mainland China increases substantially and consumer demands for improvement of product quality have led to automated and semi-automated production situation turning more and more obvious. On the other hand, due to increased competition

among enterprises, it will be more industry concentration and further similar situation upstream and downstream industry chain integration. To achieve scale, controllable controllable costs and the quality of the business model, reconstruction and additional demand of automation will increase further. The Company's main products “pneumatic components” are the integral part of the critical components of various types of automated production equipment. In addition, the Chinese government proposed in May 2015 the "Made in China 2025" is more clearly put forward the brand's quality improvement and intelligent manufacturing (automation equipment is a prerequisite), which forecasts the tremendous demands for pneumatic components. Meanwhile, the “Standardized equipment manufacturing industry and plan of quality rising”, the Chinese government proposed in April 2016, pointed out the growing quality of brands and wise manufacturing (automatic machinery is required). Therefore, the demand of pneumatic components, which are used to transfer and upgrade industry, increased in the market. The Chinese government also proposed “Investment guide of transforming and upgrading business technology” to guide the business to use new technology, new techniques, new materials and new equipments to advance the conventional industries. The Chinese government also overemphasize on the technique level and the capacity and it will lead to steady extend market in automatic equipment manufacturing area.

Future economic growth mode is determined by the export to the domestic oriented market. But the Chinese domestic market is without sales channel due to the vast territory and difficult to access the market. Moreover, the current industry of mechanical equipments requires shorter delivery time, which results in the supplier of pneumatic components having to establish sufficient and effective service network and sophisticated supplying capacity with quick response for maintain the leading position in the industry.

Above all, the demand for pneumatics in Chinese market will increase rapidly, and suppliers with good sales network, high performance products, or high R&D capacity will dominate the market.

In the overseas market, according to World Bank Group, the global economic growth rate would be amount to 3.1%, higher than the ratio of 2.7% in year 2017. This is the first growth after the financial crisis.

World Bank forecast that the economic growth of USA is 2.5%. This is 0.3% higher than the forecast predicted in June 2016. Republic Party proposed the tax reduction measures last month to stimulate the economic growth of 0.6%. Although the decision-maker is worried about the policy of America first which is proposed by USA president, Donald Trump, investors look to further increase in global economics. The S&P 500 increase in the first six trading day and set a new high. World Bank indicate that the economic growth of China will be amount to 6.4%. Although the policy maker keeps balancing economy and tries to decrease the nation leading investment, the ratio of credit loans to capacity still increases.

Overall, the world economy is in a difficult recovery Traditional economic system and development model has faded, each country is looking for the new engine of economic growth

needed. The new engine of economic growth comes from innovation, only the economy which persists in innovation will eventually succeed.

4.Competitive edge

(1) Brandname and customer recognition

The brandname “AirTAC” is composed of a few elements; “Air” means air-driven products; “T” means the Company’s products are “technological” that are key components for use in mechanical industry, meaning the Company is in “Technology Industry”; “A” denotes “Automatic”, meaning pneumatic components are an indispensable part of automation industry and machine production; “C” means “Components.” This brandname clearly embodies the features of the Company products, the industries that use the products and their applications. “亞德客 AirTAC” is now accredited as a well-known trademark of China, which can protect the AirTAC brand from infringement nationwide. In addition, because of the brand awareness and product breadth AirTAC enjoys in China, its products are now the industry standards in the local markets.

By sales, the “AirTAC” is now the second brand in China’s pneumatic component market. This is quite an achievement for an industrial product and a manufacturer. Now AirTAC is ready to move on into the world market to introduce the brand AirTAC to worldwide customers of pneumatic components.

(2) Vertical product integration to meet the one-stop shopping needs of customers

The Company now offers vertical integration services from R&D, design, metal forming, injection molding, processing of other metal parts, assembly, and installation, coupled with complete and elaborate lab testing to ensure the stability of product quality and expand production to achieve economy of scale, thereby reducing the unit cost of production. The vertical integration capabilities also enable the Company to effectively address the needs of different industries and clients, have fast reaction and greater flexibility in product design to let clients feel that their needs are fully understood, expand the application markets, and meet the one-stop shopping needs of downstream customers.

(3) Global logistics capability

The overall pneumatic component industry is expected to grow at a steady pace in the future, but the sheer number of players on the market has intensified the price competition. As the downstream application markets continue to expand, the Company has established four production bases in Taiwan and China with the aims to achieve product diversification, mass production, lower costs and meet customer needs. The Company has also set up sales headquarters in China, Europe, Southeast Asia, and Japan to use the production resources more effectively and extend the sales network. The Company’s global logistics capability and sound ERP system (Enterprise Resource Planning) make the best allocation of enterprise resources, effectively reduce costs, shorten the delivery time, and provide important

reference data in strategy setting. The ERP system has become an important advantage for the Company in global market competition.

(4) Strong and market-sensitive R&D capability

The Company owns comprehensive and trendy process technologies and product lines. With respect to pneumatic control components, the Company offers electronic control valves, pneumatic control valves, manual valves, mechanical valve and other valves, fluid control valves, etc. With respect to air preparation units, the Company offers many kinds of F.R.L. combination, F.R. combination, regulating filter, filter, regulator, oil feeder, slow-start valve, stop valve, air block, drainer, pressure gauge, etc. With respect to actuator, the Company offers standard cylinders, miniature cylinders, compact cylinders, multi-mount cylinders, twin-rod and tri-rod cylinders, slide table cylinders, rodless cylinders, rotary cylinders, pneumatic grippers, clamping cylinders, rotary clamp cylinders, stopper cylinders, and cylinder accessories including oil buffers, speed controllers, products for piping and related systems, which are all developed for different industries and tailored to different customer needs. The Company also develops products based on customer feedback and research on future industry trends to expand the product lines to high-end applications, such as semiconductor equipment, medical equipment, and biotech equipment, and onto whole-plant design to become a total solution provider.

In the series of linear guide products, the first come out product is miniature linear guide. Except of the standard width of linear guide, AirTac also provide various kinds of customized size and function products to meet the variety needs of customers.

(5) Complete sales network

The Company has a complete sales network in China. Led by the subsidiary AirTAC (China) Co., Ltd., the Company has branch offices, representative offices and distributors throughout the urban and rural areas of China. The Company has 4 sales centers, which located in Huadong area, Huanan area, Huabei area and Northwest area , 139 direct selling office and more than 3000 distributors by the end of March 2017. Airtac has coinued to set up local sales branches and offices in 2018. Because the Company's clients are spread in different industries and areas, an extensive sales network gives customers quick access to AirTAC products. The Company also has more than 100 distributors in Europe, USA and Asia that allow AirTAC products to make headway into the world markets.

(6) Comprehensive after-sale service system

The Company provides not just products, but also a complete set of services. Starting from first approaching a client, the Company helps the client make the most of their existing production resources and establish improvement plan to help them save costs. Technical supports and services available to clients include production line upgrade, implementation of automation items, maintenance and repair, as well as installation, testing, planning and

project design to create maximum value beyond the pneumatic products. In after-sale service, the Company offers joint warranty. That is, a buyer of a Company product from any distributor in China is entitled to receive technical services from any branch office of AirTAC in China. The Company also guarantees that a customer will receive service in 24 hours after making a request for service. This way, customers are ensured quality services and the Company will gain customer trust in the long run.

5. Favorable and unfavorable factors for long-term growth and response strategy

(1) Favorable factors

A. Robust market development and market growth in China bring business opportunities

The Chinese government mentions in the 13th Five-Year Plan that begins in 2016 that will support new information technics, new energy motors, biotechnology, green low-carbon, high-end equipment and materials, figure originality, etc. China will create industry clusters and build advanced manufacturing bases with international competitiveness, and in boosting technological reform, formulate technological upgrade policy, accelerate the application of new technologies, new processes and new equipment to upgrade the traditional industries, accelerate the phaseout of backward processes and equipment to enhance the overall efficiency of energy use. The “2025 Made in China” published by the State Council of China in 2015 specified the guiding concept and concrete requirement of the industrial restructuring and upgrading and highlighted the development of advanced equipment manufacturing, the improvement of the R&D and integration level of basic components, the acceleration of the upgrading of key equipments, and the development of high-end equipment manufacturing, which forecasted the tremendous demands for pneumatic components.

B. Extensive applications of product render the Company business less vulnerable to economic cycle

Pneumatic components are extensively applied in a variety of industries, from machine tools, semiconductor, automotive, daily necessities to construction and textile as key components in automated processes. Due to the dispersion of industrial applications, except for the systemic risk of economic recession, pneumatic component industry is less likely to expose to the risk where multiple industries hit bottom at the same time. As such, pneumatic components could always find buyers and the industry as a whole does not experience distinct high or low season, or face the risk of industry concentration risk. Moreover, as the China markets grow, all kinds of industries grow along which will boost the demands for pneumatic products.

C. The emergence of green industry boosts demands for pneumatic components

Countries around the world are paying more and more attention on environment protection amidst the increasingly serious phenomenon of global warming. While governments put

more control on waste and pollution generated in production, manufacturers are looking for more environmental friendly and efficient production mode. Pneumatic components are all air-driven, unlike hydraulic systems that are oil driven, consume considerable energy and generate pollution. Hence pneumatic components are the best choice in industrial settings in the wake of heightened environmental awareness.

D. Wage hike in China propel industries to increase the automation in processes

Businesses in China experienced sharply rising wages, and some manufacturers move plant facilities to the western part of China or transfer business to Southeast Asian countries. But more companies decide to stay where they are and at the same time upgrade to automated process to replace labor-intensive plant operations in order to reduce manpower requirement and improve product quality stability. Automated process equipment needs many pneumatic components. The trend of automation becomes the force driving the Company's business growth.

E. The slowdown of global economy leads to reasonable demands from manufacturers

Murky economic situation coupled with dragging on long-term aging population in developed and emerging market country and low labor force participation rate influence future economic growth. Therefore, some manufacturers continue to make rationalized procurement selection on automation components demand, namely the tendency to select good quality and reasonably priced pneumatic products. In this way, more conducive to company to expand product sales advantage.

(2) Unfavorable factors and response strategy

A. Great volatility of material prices on the international market and supply-demand imbalance pose greater challenges to raw material inventory management and cost control

Aluminum, copper and steel are the main raw materials for Company's products. As revenues grow, the consumption of raw materials would also increase sharply. In recent years, the fluctuation of raw material prices are big and the volatility in raw material prices makes it difficult for manufacturers to grasp their costs and delivery date. Thus raw materials and cost control are big challenges to the Company at the present time.

Response strategy

- a. Externally forge long-term rapport with upstream suppliers to mitigate the impact of price volatility in raw materials; internally designate the material management and procurement unit of the parent company to carry out price management for the Group's procurement operation to get a better grip of the material price trends and make immediate response in times of steep price volatility.
- b. Strengthen cost control capability and use vertically integrated production operation to better control the product cost and enhance competitiveness, and keep the impact of material price volatility on cost instability to the minimum.

- B. Although China's economy continues to grow and the markets expand, many small manufacturers would imitate the products or even the logo of large and well-known manufacturers and sell their copycats in the market at a much lower price, while giving buyers the impression that they were purchasing the brandname products. But the poor or unstable quality of those copyrights often leads to product breakdown or consumer dispute, which at times causes problem for brand manufacturers. Because such phenomenon is rather common in the China markets, it poses certain obstacle to brand manufacturers in operations.

Response strategy

- a. The Company has registered the brand “亞德客 AirTAC” in the local markets in China and has been accredited as a well-known trademark of China on April 27, 2012. Nobody else may register the “亞德客 AirTAC” trademark. The Company also adopts a defensive trademark strategy by registering similar trademarks in advance to prevent rivals from using similar trademark to confuse or mislead consumers.
 - b. The Company engages local attorneys and own distribution system to crack down counterfeits. The Company would collect evidence against individuals and stores that sell counterfeits and forward the evidence to local law enforcement for further actions. The actions of the Company are to let merchants realize that selling counterfeit products are subject to penalty and to derail the distribution of counterfeits, thereby achieving the purpose of reducing the sources of counterfeited products.
- C. Wage hike in China boosts the production costs

With the acceleration of population aging, rising labor costs is inevitable. Working-age population has already begun to reduce from few years ago. The number of migrant workers has been declining, and most of the young migrant workers have been transferred to the city. According to supply and demand structure, wage inflation is an inevitable and irreversible trend. The goal of "13th five-year" plan is to double the GDP and per capita rural and urban income of 2010 by 2020. The above information shows that enterprises will continue to increase labor costs in mainland China.

Response strategy

The Company's R&D department and production line work together to improve the process technology and cut down the waste of raw materials and improve the process so as to reduce the man hours, improve production efficiency and lower costs. The Company also increases the automation ratio, using automated machinery in place of manual labor to render product quality more stable and reduce labor cost.

- D. RMB exchange rate fluctuation Intensification

From January 5, 2017 to February 2, 2018, the middle price of RMB had increased from 6.9307 to 6.2885. The appreciation range is amount to 10.2%. The spot exchange rate is

over 6.28. Especially in 2018, the appreciation is out of the expectation of the market. According to the theory of balance of payment adjustments and theory of home-currency internationalization, weak RMB is in favour of export abroad and hard RMB is in favor of home-currency internationalization. The rising of exchange rate will bring huge harm to the real economy.

Response strategy

Nearly 90% of the Company purchase and sale take place in China. The Group also uses RMB as functional currency and accounting currency, and thereby has limited exposure to Renminbi exchange rate fluctuation. The Company will watch the exchange rate variation closely and hedge the risk if necessary.

5.2.2 Usage and manufacturing processes of main products

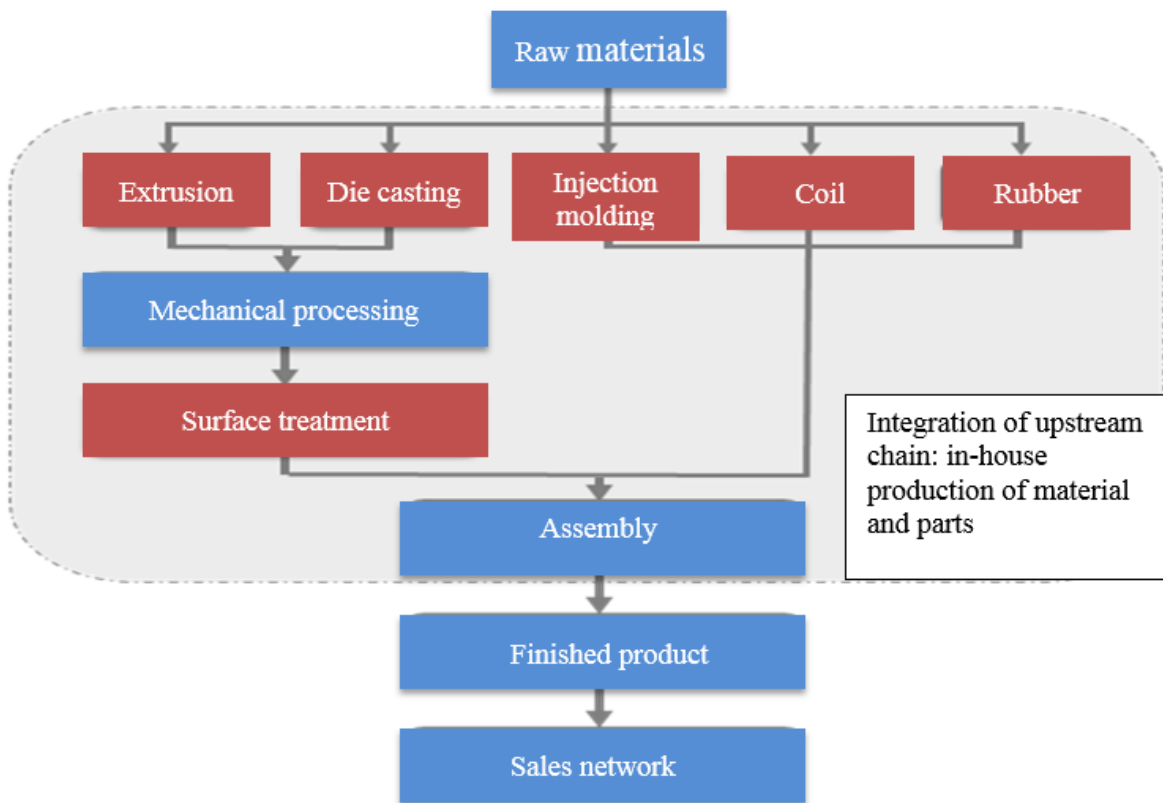
1. Usage of main products

- (1) Actuator (cylinder): Cylinder is an actuator component of a pneumatic system. An air cylinder typically comprises a cylinder body, top and bottom lid, piston, piston rod, sealing and fastening pieces. Through the push of compressed air, the piston rod in the cylinder is extended or pulled back, which, in coordination with the mechanical design, can operate a mechanical arm, platform lift or brake, and can be applied in staple gun, drill, stamping machine and other tools.
- (2) Control component (valve): In the pneumatic system, valves are airflow control components and the basic components in the operation of pneumatic system. This component blocks the flow of fluid to achieve pressure, direction or flow control. By function, there are pressure control valve, directional control valve and flow control valve. Valve control could be driven manually, electrically, or by fluid or air. Valves would act under pressure, temperature or other forms of sensing signals in a predetermined fashion or to carry out the simple action “switch on” and “switch off”, thereby changing the area of flow channel and achieving the purpose of control. Valves are used to form the switches for a pneumatic loop to control the speed of movement and control multiple sets of pneumatic systems.
- (3) Air preparation unit: Before air is transmitted to the equipment, it must pass through an air filter to remove moisture and impurities in it. A pressure regulator is then used to adjust the pressure in the pipeline. Finally a lubricator sprays oil mist into the pipe to mix with the air for lubrication purpose. The filtering, regulating and lubricating parts combined are called an air preparation unit that can increase the accuracy of air pressure and the service life of pipelines.
- (4) Sensing elements: Factory automation practice, often need to real-time monitor and feedback of position of pneumatic actuators such as cylinder and pressure values of pneumatic circuit, in order to achieve the purpose of open or closed loop control. Such sensing element comprises a pressure sensor sensing and feedback the switch or analog signal of digital

pressure switch, and the use of magnetic induction to sense cylinder position and feedback the switch or analog signal of magnetic sensing switch.

- (5) Linear Guide: Linear guide is composed of cam block and slippery track. It has more load capacity than the linear bearing. It has a mechanism to bear more load and to guide their linear movement simultaneously.

2. The Production Procedures of Main Products



5.2.3 Supply Status of Main Materials

Main material	Supplier	Status of supply
Aluminum	Suzhou Mingheng, Wuhsi Chengta	Good
Medium carbon steel	Fu Long	Good
Brass	Chang Shinyi Metal	Good

5.2.4 Major Suppliers

- Suppliers who accounted for more than 10% of the purchase by the Company in the last two years, the amount of purchase to total purchase, and reasons for changes in purchase percentage.

Unit: NT\$ thousands

Rank	2016				2017			
	Name of supplier	Amount	% of net purchase	Relationship with AirTAC	Name of supplier	Amount	% of net purchase	Relationship with AirTAC
1	Supplier A	350,051	10.19%	None	Supplier A	352,193	6.25%	None
2	Supplier B	281,089	8.18%	None	Supplier C	278,796	4.95%	None
3	Supplier C	226,189	6.58%	None	Supplier D	249,612	4.43%	None
4	Supplier D	176,457	5.14%	None	Supplier E	215,828	3.83%	None
5	Supplier E	150,871	4.39%	None	Supplier F	167,574	2.97%	None
6	Supplier F	79,365	2.31%	None	Supplier B	164,648	2.92%	None
7	Supplier G	69,186	2.01%	None	Supplier G	147,474	2.62%	None
8	Supplier H	59,577	1.74%	None	Supplier N	129,094	2.29%	None
9	Supplier I	57,153	1.66%	None	Supplier K	122,900	2.18%	None
10	Supplier J	56,694	1.65%	None	Supplier O	120,665	2.14%	None
	Others	1,929,086	56.15%		Others	3,684,281	65.42%	
	Net sales	3,453,718	100.00%		Net sales	5,633,065	100.00%	

Change analysis: Purchase from Supplier A accounted for more than 10% of total purchase. It was mainly because Supplier A is an aluminum metal supplier. As the Company continues to improve its production technology and gradually increases the in-house production rate, the Company switched part of purchase of aluminum processed workpieces to the purchase of raw material aluminum for in-house production.

- Customers who accounted for more than 10% of the sales in the last two years, and the amount of sales to total sales and reason for changes in sales percentage.

Unit: NT\$ thousands

Rank	2016				2017			
	Name of supplier	Amount	% of net purchase	Relationship with AirTAC	Name of supplier	Amount	% of net purchase	Relationship with AirTAC
1	Customer A	97,494	0.92%	None	Customer B	171,591	1.25%	None
2	Customer B	81,667	0.77%	None	Customer A	119,158	0.87%	None
3	Customer C	76,448	0.72%	None	Customer D	98,182	0.72%	None
4	Customer D	70,220	0.66%	None	Customer C	95,707	0.70%	None
5	Customer E	68,261	0.64%	None	Customer O	91,884	0.67%	None
6	Customer F	53,915	0.51%	None	Customer E	84,465	0.62%	None
7	Customer G	46,291	0.44%	None	Customer F	76,176	0.56%	None
8	Customer H	46,193	0.43%	None	Customer H	61,693	0.45%	None
9	Customer I	45,049	0.42%	None	Customer P	57,912	0.42%	None
10	Customer J	40,493	0.38%	None	Customer Q	57,396	0.42%	None
	Others	9,995,587	94.11%		Others	12,803,741	93.32%	
	Net sales	10,621,618	100.00%		Net sales	13,717,905	100.00%	

Company did not have customers who accounted for more than 10% of the sales in the last two years.

5.2.5 Production quantity and value in the last two years

Unit: NT\$ thousands; 1,000 units

Production Main products	Year	2016			2017		
		Capacity	Output quantity	Output value	Capacity	Output quantity	Output value
Pneumatic control component		10,422	10,800	1,361,090	16,586	16,467	1,929,798
Pneumatic actuator		8,212	8,220	2,271,508	12,254	12,451	3,027,113
Air preparation unit		2,533	2,515	430,812	4,231	3,666	585,772
Others		Note	Note	764,700	Note	Note	1,669,469
Total				4,828,110			7,212,152

Note: The other products are miscellaneous items that have different units for inventory purpose and hence cannot be compared.

5.2.6 Sales volume/ revenue in the last two years

Unit: NT\$ thousands; 1,000 units

Sales Main product	Year	2016				2017			
		Domestic sale		Export sale		Domestic sale		Export sale	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Pneumatic control component		9,568	2,496,391	664	191,251	13,210	3,125,609	751	212,801
Pneumatic actuator		7,535	4,737,742	315	236,524	10,754	6,266,105	334	260,622
Air preparation unit		2,197	728,284	290	95,871	2,995	912,436	273	88,473
Others		46,932	2,030,853	1,727	104,702	70,735	2,720,206	2,450	131,653
Total		66,232	9,993,270	2,996	628,348	97,694	13,024,356	3,808	693,549

Note: Export sale means sales to areas outside Greater China.

5.3 Employee Information in the Recent Two Years and as of the Date of the Publication of the Annual Report

Unit: persons; %

Year		2016	2017	Up to the date of annual report
Number of employees	Manager and higher	113	122	123
	Staff	2,441	2,811	2,891
	Production line worker	2,413	3,746	3,873
	Total	4,967	6,679	6,887
Average age		28.30	29.85	29.62
Average years of service		3.59	3.60	3.96
Education background (%)	Ph.D.	0.04	0.01	0.01
	Master	1.99	1.56	1.44
	University/College	42.24	38.69	38.73
	High school	45.40	51.74	52.33
	Below high school	10.33	8.00	7.49

5.4 Environmental Expenditures

Total losses (including damage awards) and fines for environmental pollution for the two most recent fiscal years, and during the current fiscal year up to the date of annual report, response strategies (including corrective measures) and possible disbursements to be made in the future (including an estimate of losses, fines, and compensation resulting from any failure to adopt responsive measures, or if it is not possible to provide such an estimate, an explanation of the reason why it is not possible): None.

5.5 Labor Relations

5.5.1 Employee benefit plans, continuing education, training, retirement systems, and the status of their implementation, and the status of labor-management agreements and measures for preserving employees' rights and interests.

1. Employee benefit plans

The Company pays its employees higher than industry average salary, as well as year-end bonus, quarterly performance bonus and all kinds of allowances and subsidies. The Company also arranges free physical examination at designated institutions and purchases insurances for employees, including basic pension, medical, work injury, maternity and unemployment, and provide them with subsidies for wedding, death, childbirth and hospitalization, and group travel. The Company also holds cultural, art and sports activities to foster a sense of affinity among employees and enhance work efficiency.

2. Continuing education and training

Education and training aids the Company to grow and develop. Systematic, scientific and reasonable training hone the professional skills of employees and help develop their intelligence, potential and vigor to the maximum that will benefit the sustained operation of the Group. The Company provides a series of training courses tailored to the needs of employees, including recruitment training, on-the-job training and professional skill training.

3. Retirement system and state of implementation

The Company's subsidiary registered in the Republic of China has established employee retirement plan in accordance with the Labor Standards Act of the ROC. Under the old system, the Company sets aside 2% of total salary paid as pension reserve and deposits it into a Labor Pension Fund Supervisory Committee account every month. Starting July 1, 2005 along with the implementation of a new pension system under the Labor Pension Act (referred to as the "new system" or "defined contribution plan" hereunder), employees who were subject to the Basic Standards Act may choose to switch to the new system and employees who report to work after the implementation of the new system will be subject to the defined contribution plan. Under the plan, the Company will contribute 6% of an employee's monthly wages into his or her personal labor pension fund account.

Company's subsidiaries in China will pay for the pension insurance of employees in accordance with the local regulations. Pension insurance in China is part of the social insurance, which cover medical, maternity, pension, work injury, and unemployment benefits. Once the Company enrolls a new employee in the social insurance program, the Company starts to make pension contribution on his or her behalf. The contribution rate, standards and disbursement of pension benefit are as follows:

● Ningbo AirTAC Automatic Industrial Co., Ltd.

Pension insurance	Basic insurance	
	Employee	Employer
Contribution rate	8%	14%
Contribution base	Average monthly salary of employee in the last year	

● Guangdong AirTAC Automatic Industrial Co., Ltd.

Pension insurance	Basic insurance (regardless Guangdong and outside city staff)	
	Employee	Employer
Contribution rate	8%	13%
Contribution base	The average monthly wage of the employees in the last year	The average monthly wage of the employees in the last year

● AirTAC (China) Co., Ltd.

Pension insurance	Basic insurance	
	Employee	Employer
Contribution rate	8%	14%
Contribution base	Average monthly salary of employee in the last year	

5.5.2 Loss sustained as a result of labor disputes in the two most recent fiscal years, and during the current fiscal year up to the date of annual report, an estimate of losses incurred to date or likely to be incurred in the future, and mitigation measures being or to be taken; if the loss cannot be reasonably estimated, a statement to that effect.

The Company has been maintaining a harmonious relationship with its employees and did not sustain any loss resulting from labor dispute. Moreover, the Company does not expect to sustain loss resulting from labor dispute in the coming year.

5.6 Important Contracts

5.6.1 AirTAC International Group

Nature of contract	Party	Date of contract	Content	Covenant
Funds Lending	AirTAC Ningbo	2017.06.13~2018.06.12	The Company loans USD 4.9 million to AirTAC Ningbo at the agreed rate of [LIBOR (1 year) + 1%]/0.844; the monthly interest payment is approximately USD 9,500 (after tax). AirTAC Ningbo should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Funds Lending	AirTAC Ningbo	2017.08.09~2018.08.08	The Company loans USD 4.9 million to AirTAC Ningbo at the agreed rate of [LIBOR (1 year) + 1%]/0.844; the monthly interest payment is approximately USD 9,500 (after tax). AirTAC Ningbo should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Funds Lending	AirTAC Ningbo	2017.08.14~2018.08.08	The Company loans USD 4.5 million to AirTAC Ningbo at the agreed rate of [LIBOR (1 year) + 1%]/0.844; the monthly interest payment is approximately USD 9,500 (after tax). AirTAC Ningbo should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Funds Lending	ATC Italia	2017.09.11~2018.09.10	The Company loans EUR 1.1million to ATC (Italia) S.r.l.	None
Funds Lending	ATC Italia	2018.03.13~2019.09.10	The Company loans EUR 900,000 to ATC (Italia) S.r.l.	None
Funds Lending	ATC Italia	2018.03.13~2019.03.12	The Company loans EUR 300,000 to ATC (Italia) S.r.l.	None
Funds Lending	Airtac International (Singapore)	2017.05.19~2018.05.18	The Company loans USD 3 million to Airtac International (Singapore).	None
Funds Lending	Airtac International (Singapore)	2017.08.08~2018.05.18	The Company loans USD 2 million to Airtac International (Singapore).	None
Funds Lending	Airtac Co., Ltd.	2018.02.13~2019.02.12	The Company loans USD 3.5 million to AirTAC Co., Ltd.	None
Funds Lending	AirTAC Malaysia	2017.11.06~2018.11.05	The Company loans USD 620,000 to AirTAC Malaysia.	None

5.6.2 Branch of Airtac International Group

Nature of contract	Counterparty	Term of contract	Content	Covenant
Credit granting	Mega International Commercial Bank and other financial institutions, 12 financial institutions in total	2018.03.26~2023.03.26	The company signed a total of NT \$ 6 billion syndicated loan agreement with Bank Mega and other financial institutions, 12 financial institutions in total in March 2018. Since the first use date (March 26, 2018) starting within 18 months of completion of use, upon the expiration of the use period, the unspent amount is automatically canceled.	Have to meet certain financial ratios and standards since the year of 2017.
Mortgage	Mega International Commercial Bank Co., Ltd	2018.03.26~2023.03.26	In order to guarantee the debt of Mega International Commercial Bank, the land and plant in Xinshi Dist. Tainan of the Branch set the maximum mortgage to the mortgage Mega International Commercial Bank Co., Ltd.	None
Construction	Ju Hong Engineering Co., Ltd.	2018.01.22	New factories operated subsidiary of hydropower projects in Xinjin Sec., Xinshi Dist., Tainan City, the total price of NT\$ 10 billion and 63.5 million.	None

5.6.3 AirTAC Ningbo

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	The Company	2017.06.13~2018.06.12	The Company loans USD 4.9 million to AirTAC Ningbo at the agreed rate of [LIBOR (1 year) + 1%]/0.844; the monthly interest payment is approximately USD 9,500 (after tax). AirTAC Ningbo should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2017.08.09~2018.08.08	The Company loans USD 4.9 million to AirTAC Ningbo at the agreed rate of [LIBOR (1 year) + 1%]/0.844; the monthly interest payment is approximately USD 9,500 (after tax). AirTAC Ningbo should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	None
Loan	The Company	2017.08.14~2018.08.08	The Company loans USD 4.5 million to AirTAC Ningbo at the agreed rate of [LIBOR (1 year) + 1%]/0.844; the monthly interest payment is approximately USD	None

Nature of contract	Counterparty	Term of contract	Content	Covenant
			9,500 (after tax). AirTAC Ningbo should give the Company a preceding one-month written notice and obtain the Company's consent if it plans to pay off the loan early.	
Construction	Kuo Hsia Construction Co.	2017.08.21	Four new projects installation of the new plant, the total price of RMB 143 million.	None
Purchase equipment	YAMAZEN CORPORATION	2017.12.26~2017.03.17	CNC lathes and Oil feeder, the total price of RMB 451.05 million.	None
Import equipment	FULL LUCK LIMITDE	2017.03.15~2017.11.02	CNC lathe, JPY 159.3 million.	None

5.6.4 AirTAC Guangdong

Nature of contract	Counterparty	Term of contract	Content	Covenant
Purchase equipment	GTC Trading Co. Ltd.	2017.01.23~2017.11.02	CNC lathes, RMB 24.832 million.	None
Import equipment	FULL LUCK LIMITDE	2017.02.16~2017.11.22	CNC lathe, JPY 293.7 million.	None

5.6.5 ATC (Italia) S.r.l.

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	The Company	2017.09.11~2018.09.10	The Company loans EUR 1.1million to ATC (Italia) S.r.l.	None
Loan	The Company	2018.03.13~2018.09.10	The Company loans EUR 900,000 to ATC (Italia) S.r.l.	None
Loan	The Company	2018.03.13~2019.03.12	The Company loans EUR 300,000 to ATC (Italia) S.r.l.	None
Lease	DELTA S.R.L.	2014.11.01~2020.10.31	Plant lease agreement	None

5.6.6 AirTAC International (Singapore)

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	The Company	2017.05.19~2018.05.18	The Company loans USD 3 million to Airtac International (Singapore).	None
Loan	The Company	2017.08.08~2018.05.18	The Company loans USD 2 million to Airtac International (Singapore).	None
Land lease	JTC Corporation	2017.12.16~2018.12.15	Signed a lease agreement with JTC Corporation with a monthly rent of SGD 98,434.32.	None

5.6.7 AirTAC Co., Ltd.

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	The Company	2018.02.13~2019.02.12	The Company loans USD 3.5 million to AirTAC Co., Ltd.	None
Purchase	Kyoto Steel Pipe	2017.03.20~2018.03.19	The parties sign a steel pipe purchase agreement.	None
Lease	IMAS Co.,Ltd.	2017.04.01~2019.03.31	Office lease agreement	None
Product	Kakamura-Tome Precision Industry Co., Ltd.	2017.03.14~2018.03.13	The parties sign a machine purchase agreement.	None

5.6.8 AirTAC Malaysia

Nature of contract	Counterparty	Term of contract	Content	Covenant
Loan	The Company	2017.11.06~2018.11.05	The Company loans USD 620,000 to AirTAC Malaysia.	None
Lease	Lim Siew Lan	2017.08.01~2020.07.31	Office lease agreement	None
Lease	Leong Weng Kong	2014.12.01~2018.11.30	Office lease agreement	None
Lease	Tang Cheong Yew & Chin Chew Sze	2015.06.01~2018.11.30	Office lease agreement	None
Lease	Tong Yen Sdn Bhd	2017.06.01~2019.05.31	Office lease agreement	None

5.6.9 AirTAC Thailand

Nature of contract	Counterparty	Term of contract	Content	Covenant
Lease	Thriven Asset Co., Ltd.	2015.06.01~2018.05.31	Office lease agreement	None

5.6.10 Jiangsu AirTAC

Nature of contract	Counterparty	Term of contract	Content	Covenant
Construction	Shanghai Yuan Yi decoration Co., Ltd	2017.08.05	Total price is RMB 8 million.	None

5.6.11 Guangdong Airtac Machinery Equipment Co., Ltd.

Nature of contract	Counterparty	Term of contract	Content	Covenant
Lease	Huichou City Hung Tai Yuan Co., Ltd	2017.01.01~2018.12.31	Total amount is RMB 2,284,800.	None

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed balance sheet and statements of income - International Financial Reporting Standards (IFRS)

1. Condensed balance sheet - IFRS

Unite: NT\$ thousands

Year Item		Financial Summary for The Last Five Years				
		2013	2014	2015	2016	2017
Current assets		5,521,452	7,430,137	8,406,840	9,856,073	11,880,273
Fixed assets, plants and facilities		8,106,491	10,429,741	12,082,831	11,768,569	14,786,841
Intangible assets		69,230	102,729	107,634	77,156	76,410
Other assets		539,885	752,539	748,903	1,204,256	2,162,068
Total assets		14,516,551	18,936,529	21,456,017	22,962,912	28,905,592
Current liabilities	Basic	4,179,460	6,638,824	8,085,777	9,821,430	10,972,714
	Diluted	5,253,610	5,820,424	7,369,677	8,837,174	(Note 2)
Non-current liabilities		1,293,506	2,239,892	2,961,388	2,389,285	1,970,861
Total liabilities	Basic	5,472,966	8,878,716	11,047,165	12,210,715	12,943,575
	Diluted	6,547,116	8,060,316	10,331,065	11,226,459	(Note 2)
Profit attributed to the owner of the parent company		8,899,424	9,905,315	10,258,596	10,640,215	15,952,119
Capital stock		1,705,000	1,705,000	1,790,250	1,790,250	1,890,250
Capital surplus		3,906,960	3,906,960	3,906,960	3,906,960	6,870,172
Retained earnings	Basic	2,976,766	3,673,347	4,137,247	5,294,959	7,610,806
	Diluted	1,902,616	2,769,697	3,421,147	4,310,703	(Note 2)
Other equities		310,698	620,008	424,139	(351,954)	(419,109)
Treasury stock		—	—	—	—	—
Non-controlling interests		144,161	152,498	150,256	111,982	9,898
Total stockholders' equity	Basic	9,043,585	10,057,813	10,408,852	10,057,813	10,408,852
	Diluted	7,969,435	9,239,413	9,692,752	9,767,941	(Note 2)

Note 1: The 2013~ 2017 consolidated financial statements have been audited and certified by CPA.

Note 2: The 2017 earnings distribution still awaits the approval of shareholders' meeting.

2. Condensed statements of income - IFRS

Unit: NT\$ thousands

Year Item	Financial Summary for The Last Five Years				
	2013	2014	2015	2016	2017
Operating revenue	7,300,291	8,378,961	8,797,169	10,621,618	13,717,905
Gross profit	4,036,158	4,603,177	4,537,348	5,435,272	7,127,172
Operating income (loss)	2,194,751	2,388,918	2,072,818	2,719,668	4,141,128
Non-operating income and gain	172,006	(376)	(233,242)	128,341	216,042
Net income before tax	2,366,757	2,388,542	1,839,576	2,848,009	4,357,170
Net income of the term from continuing operations	1,725,451	1,786,112	1,375,086	2,028,050	3,299,781
Loss on discontinued operations	—	—	—	—	—
Net income of the term	1,725,451	1,786,112	1,375,086	2,028,050	3,299,781
Other consolidated income and loss (net amount after tax)	284,021	312,925	(194,988)	(722,383)	(67,136)
Total consolidated income and loss	2,009,472	2,099,037	1,180,098	1,255,667	3,232,645
Net profit attributed to the owner of the parent company	1,710,158	1,770,731	1,367,550	1,918,675	3,300,103
Net profit attributed to non-controlling interests	15,293	15,381	7,536	109,375	(322)
Consolidated profit and loss attributed to the owner of the parent company	1,995,666	2,080,041	1,171,681	1,147,123	3,232,948
Consolidated profit and loss attributed to non-controlling interests	13,806	18,996	8,417	108,544	(303)
Earnings per share (NTD)	9.50	9.89	7.64	10.72	18.07

Note: The 2013~ 2017 consolidated financial statements have been audited and certified by CPA.

6.1.2 Names and audit opinions of certifying accountants for the past five years

Year	Name of certifying accountant	Name of accounting firm	Audit opinion
2013	Ming-Chuang Hsieh, Roy Weng	Deloitte & Touche	Unqualified opinion
2014	Ming-Chuang Hsieh, Roy Weng	Deloitte & Touche	Unqualified opinion
2015	Ming-Chuang Hsieh, Roy Weng	Deloitte & Touche	Unqualified opinion
2016	Ming-Chuang Hsieh, Roy Weng	Deloitte & Touche	Unqualified opinion
2017	Rich Chih, Roy Weng	Deloitte & Touche	Unqualified opinion

6.2 Financial Analysis

6.2.1. Financial Analysis-IFRS

Item		Year	Financial Analysis for the Past Five Years				
			2013	2014	2015	2016	2017
Financial structure(%)	Debt to asset ratio		37.70	46.89	51.49	53.18	44.78
	Long-term capital to fixed assets ratio		123.81	114.65	107.97	108.66	118.77
Solvency (%)	Current ratio		132.11	111.92	103.97	100.35	108.27
	Quick ratio		93.12	83.71	79.36	77.89	71.49
	Times interest earned ratio		46.77	35.48	21.68	21.07	26.87
Operating ability	Accounts receivable turnover ratio (times)		3.88	3.36	3.03	3.12	2.98
	Average collection period (days)		94.07	108.63	120.46	116.98	122.48
	Inventory turnover ratio (times)		2.49	2.23	2.24	2.52	2.15
	Accounts payable turnover ratio (times)		8.87	9.02	10.71	10.86	8.12
	Average days to sell inventory		146.58	163.67	162.94	144.84	169.76
	Fixed asset turnover ratio (times)		1.07	0.90	0.78	0.89	1.03
	Total asset turnover ratio (times)		0.59	0.50	0.44	0.48	0.53
Profitability	Return on total assets (%)		14.30	10.99	7.14	9.59	13.22
	Return on stockholders' equity (%)		23.50	18.70	13.44	19.17	24.70
	Pre-tax profit to paid-in capital ratio (%)		138.81	140.09	102.76	159.08	231.51
	Net income ratio (%)		23.50	21.32	15.63	19.09	24.05
	Earnings per share (NTD) (Note 1)		9.50	9.89	7.64	10.72	18.07
Cash flow	Cash flow ratio (%)		34.19	23.07	18.88	17.34	10.68
	Cash flow adequacy ratio (%) (Note 3)		50.20	44.41	44.48	43.85	33.35
	Cash reinvestment ratio (%)		7.28	3.16	4.41	6.17	0.88
Leverage	Operating leverage		1.36	1.41	1.49	1.43	1.32
	Financial leverage		1.02	1.03	1.04	1.06	1.04
The reason of recent 2 years changes up to 20% in the financial ratio:							
1. Because pre-tax profits increase over last year, interest coverage ratio increased.							
2. Because of the expanding operation, accounts payable increase and accounts payable turnover ratios decrease.							
3. Because of the rising labor cost, the demands of automatic production line and its components increase. The operating revenue and gross profit and ratios of profitability increase.							

Note 1: Calculated using retroactively adjusted weighted average shares according to the resolution of issuance of ordinary shares for cash adopted in board meeting held on March 29, 2017.

Note 2: The 2013~2017 consolidated financial statements have been audited and certified by CPA.

Note 3: Calculation formulas for financial ratios:

1. Financial structure

(1) Debt to asset ratio = total liabilities / total assets.

(2) Long-term capital to fixed assets ratio = (net stockholders' equity + long-term

liabilities) / net fixed assets.

2. Solvency

- (1) Current ratio = current assets / current liabilities.
- (2) Quick ratio = (current assets – inventories – prepayments) / current liabilities.
- (3) Times interest earned ratio = Net income before income tax and interest expense / current interest expense.

3. Operating ability

- (1) Accounts receivable (including accounts receivable and notes receivable arising from operations) turnover ratio = Net sales / average accounts receivable (including accounts receivable and notes receivable arising from operations) outstanding.
- (2) Average collection period = 365 / accounts receivable turnover ratio.
- (3) Inventory turnover ratio = cost of goods sold / average amount of inventories.
- (4) Accounts payable (including accounts payable and notes payable arising from operations) turnover ratio = cost of goods sold / average accounts payable (including accounts payable and notes payable arising from operations) balance.
- (5) Average days to sell inventory = 365 / inventory turnover ratio.
- (6) Fixed asset turnover ratio = Net sales / net fixed assets.
- (7) Total asset turnover ratio = Net sales / total assets.

4. Profitability

- (1) Return on total assets = [after-tax income (loss) = interest expense x (1 – tax rate)] / average total assets.
- (2) Return on stockholders' equity = after-tax income (loss) / net average stockholders' equity.
- (3) Net income ratio = after-tax income (loss) / net sales.
- (4) Earnings per share = (after-tax income – preferred stock dividends) / weighted average number of shares outstanding. (Note 4)

5. Cash flow

- (1) Cash flow ratio = net cash flow provided by operating activities / current liabilities.
- (2) Cash flow adequacy ratio = net cash flow provided by operating activities in the past five years / (capital expenditure + increase in inventories + cash dividends) in the past five years.
- (3) Cash reinvestment ratio = (net cash flow provided by operating activities – cash dividends) / (gross fixed assets + long-term investment + other assets + working capital).

6. Leverage:

- (1) Operating leverage = (net operating revenue – variable operating costs and expenses) / operating income. (Note 6)
- (2) Financial leverage = Operating income / operating income – interest expense).

6.3. Audit Committee Report in the Most Recent Year

AirTAC International Group Audit Committee Report

We have examined the 2017 consolidated financial statements, together with business report and earnings distribution proposal prepared by the Board of Directors and audited and certified by the Audit Committee and did not find any discrepancy. We hereby produce this report in accordance with provisions specified in Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and submit it for your review.

To

2018 General Shareholders' Meeting

AirTAC International Group

Member of Audit: Ku-Tung Lin

Member of Audit: Bao-Guang Chang

Member of Audit: Leong Kam-Son

March 12, 2018

6.4 Financial Statements and Accountant Audit Report in the Most Recent Year: None.

6.5 Consolidated Financial Statements of the Latest Year Audited by CPAs: See Appendix 1.

6.6 Financial Difficulties Encountered by the Company and Affiliates: None.

7. Review of Financial Conditions, Operating Results, and Risk Management

7.1 Analysis of Financial Status

Unite: NT\$ thousands

Year Item	2016	2017	Difference	
			Amount	%
Current assets	9,856,073	11,880,273	2,024,200	21
Long-term investments	56,858	-	(56,858)	(100)
Fixed assets	11,768,569	14,786,841	3,018,272	26
Intangible assets	77,156	76,410	(746)	(1)
Other assets	1,204,256	2,162,068	957,812	80
Total Assets	22,962,912	28,905,592	5,942,680	26
Current liabilities	9,821,430	10,972,714	1,151,284	12
Long-term liabilities	2,035,049	1,600,111	(434,938)	(21)
Other liabilities	340,228	324,921	(15,307)	(5)
Total liabilities	12,210,715	12,943,575	732,860	6
Capital stock	1,790,250	1,890,250	100,000	6
Capital surplus	3,906,960	6,870,172	2,963,212	76
Retained earnings	5,294,959	7,610,806	2,315,847	44
Other equity	(351,954)	(419,109)	(67,155)	19
Non-controlling interests	111,982)	9,898	(102,084)	(91)
Total stockholders' equity	10,752,197	15,962,017	5,209,820	3
Reasons for significant changes: (Change in amount exceeding 20%)				
1.Current assets:Because of expanding operation and growing revenue, accounts receivable and inventories increase.				
2.Long term investment: mainly due to dispose the investment valued in equity method.				
3.Fixed assets: due to the purchase of machineries and equipment.				
4.Other assets: due to the purchase of machineries and equipment.				
5.Long-term liabilities: mainly due to reapy long-term liabilities.				
6.Capital surplus: mainly due to issuance of ordinary shares for cash and issurance of ordinary shares under employee share option.				
7.Retained earnings: Total net income increased.				

7.2 Analysis of Operating Results

Unit: NT\$ 1,000

Item \ Year	2016	2017	Change	
			Amount	%
Total sales revenue	10,621,618	13,717,905	3,096,287	29
Net sales revenue	10,621,618	13,717,905	3,096,287	29
Operating cost	5,186,346	6,590,733	1,404,387	27
Gross profit	5,435,272	7,127,172	1,691,900	31
Operating expense	2,715,604	2,986,044	270,440	10
Operating income	2,719,668	4,141,128	1,421,460	52
Non-operating income and expense	128,341	216,042	87,701	68
Net income before tax	2,848,009	4,357,170	1,509,161	53
Less: Income tax expense	819,959	1,057,389	237,430	29
Net income after tax	2,028,050	3,299,781	1,271,731	63
Other consolidated income and loss	(772,383)	(67,136)	705,247	91
Change in amount exceeding 20%: 1. Sales revenue and operating cost: Because of the rising labor cost, the demands of automatic production line and its components increase. 2. Non-operating income and expense: due to recognizing foreign currency exchange gain this year. 3. Income tax expense: mainly due to the increase of gross profit. 4. Other comprehensive loss reduction: mainly recognized overseas subsidiaries due to reporting currency fluctuations.				

7.3 Analysis of Cash Flow

7.3.1 Cash flows analysis

Unit: NT\$1,000

Item \ Year	2016	2017	Amount of increase (decrease)	Increase (decrease) (%)
Inflow from operating activities	1,442,974	1,171,495	(271,479)	(19)
Outflow in investing activities	1,969,413	2,805,173	835,760	42
Inflow in financing activities	16,529	1,983,124	1,966,595	11,898
Change analysis: 1. Investing activity: Net cash outflow of investment activities in the current period increased, mainly due to the expenditure for expanding production capability, plants and equipments. 2. Financing activities: Current net cash inflow from financing activities increased, mainly due to issuance of ordinary shares for cash.				

7.3.2 Liquidity analysis for the next year and remedial plan for improving liquidity:

The Company has formulated several capital spending plans for 2018. The anticipated profit growth in 2018 is expected to provide net cash inflow from operating activities in the year and cover the cash outflows in investing and financing activities. Hence the Company does not anticipate liquidity problem.

7.4 Major Capital Expenditure Items

The Company acquired NT\$ 1,545,529 thousand and NT\$ 3,816,573 thousand of fixed assets in 2016 and 2017, respectively as the Company continues to expand capacity in response to market demands. The table below depicts the Company's fixed asset and total asset turnover ratios in the past three years, which indicate that various turnover ratios were kept at certain level, that increase in capital spending did not produce adverse effect on the Company's financial condition.

Turnover ratio	2015	2016	2017
Fixed asset turnover ratio (times)	0.78	0.89	1.03
Total asset turnover ratio (times)	0.44	0.48	0.53

7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

7.5.1 Company's investment policy

The reinvestment is carried out by designated department in accordance with the internally established internal control systems-Investment Cycle and Procedure for Acquisition or Disposal of Assets. The aforementioned systems or procedures have been passed by the board of directors' meeting or shareholders' meeting.

7.5.2 Major reasons for investment profit/ loss in recent years:

Unit: NT\$ thousands

Investee	Profit (loss) in the most recent year	Remark
Airtac Industrial (Hong Kong) Limited	3,434,427	Profit comes mainly from recognition of profit from investees AirTAC Ningbo, AirTAC Guangdong, and AirTAC China.
Airtac Trading (Hong Kong) Limited	(211)	Loss comes mainly from recognition of expenses for operation.
Instant Reach International Limited	10,644	Profit comes mainly from recognition of profit from investees ATC (ITALIA) S.R.L.
Airtac Holding (Singapore) Pte. Ltd.	17,500	Profit comes mainly from recognition of profit from investees Airtac International (Singapore) Pte. Ltd.
AMA TECH CORP.	(9,708)	The operation has not reached economy of scale.
Ningbo AirTAC Automatic Industrial Co., Ltd.	1,896,178	Expansion of operations.
Guangdong AirTAC Automatic Industrial Co., Ltd.	543,622	Expansion of operations.
AirTAC (China) Co., Ltd.	906,330	Expansion of operations.
AirTAC (Jiangsu) Automation Co., Ltd.	272,326	Expansion of operations.
Guangdong Airtac Machinery Equipment Co., Ltd.	210,869	Expansion of operations.
Airtac (Tianjin) Technology Co., Ltd.	5,254	The Company established this year.
AirTAC Industrial Co.	(1,012)	Loss comes mainly from recognition of expenses for operation.
ATC (ITALIA) S.R.L	14,880	Expansion of operations.
Airtac International (Singapore) Pte. Ltd.	27,559	The operation has gradually reached economy of scale.
Airtac Co., Ltd.	(8,680)	The operation has not reached economy of scale.
AIRTAC USA CORPORATION	(3,217)	The company did not start operating yet. Loss comes mainly from recognition of expenses for operation
Airtac Industrial (Malaysia) Sdn. Bhd.	3,703	The operation has gradually reached economy of scale.
Airtac Industrial Co., Ltd.	1,345	The operation has gradually reached economy of scale.

7.5.3 Investment plan for the coming year

1. Expect for setting up the selling branches and office in China, the Company added new factory buildings in Ningbo, Zhejiang China and Tree Valley Park located in Tainan, Taiwan. The Company also bought some machines and equipments for production.
2. Airtac USA Corporation is going to operate in 2018. The market share and the profit will rise because of expanding the selling scale continually. In the future, we will set up operating sites in Indonesia and Vietnam to develop new products, such as automatic cylinder.

7.6 Analysis of Risk Management

7.6.1 Effects of interest rate and exchange rate changes as well as inflation on Company's profit and response measures

1. Interest rate: The Company's interest expense in 2017 and 2016 was NTD 168,428 thousand and NTD 141,881 thousand respectively; accounting for respectively 4.07% and 5.22% of the year's operating profit. High interest expense was mainly due to the fact that the Company's vertically integrated production processes required more working capital. As the Company's business scale expands, profitability improves and own capital is replenished, the Company is not expected to face the risk of interest rate increase that leads to jump in interest expense. However if the Company needs to borrow funds from financial institutions and interest rate rises in the future, increased interest expense will affect the Company's profit.
2. Exchange rate: The main operations of the Group include AirTAC Ningbo, AirTAC Guangdong and AirTAC China that use RMB as their functional currency. Those companies would hold small-sum USD and Euro to pay for miscellaneous expenses of employees stationed abroad. The Company's exchange gain (loss) in 2013~2017 was \$115,116 thousand, (\$43,629) thousand, (\$291,933) thousand, (\$348,374) thousand, and \$274,054 thousand respectively, accounting for a low percentage of the year's operating profit, at 5.24%, 1.83%, 14.08%, 12.81% and 6.62% respectively.

The main operations of the Group do not face significant risk of exchange rate fluctuation. However after the Group's Cayman Islands holding company has become listed in Taiwan, the Company could be exposed to the risk of USD to NTD fluctuation for it might need to distribute dividends in NTD or exchange the funds raised in Taiwan into USD. To address the exchange rate risk, the Company's finance department might take the following actions:

Response measures:

- a. The finance department holds proper foreign currency positions in view of the trends of exchange rate to provide for the operation needs of subsidiaries and to reduce the effects of exchange rate fluctuation on the Company's profit.
- b. The finance department keeps close communication with corresponding banks and constantly monitors the foreign exchange market to enable the management to fully grasp the exchange rate variations and make timely adjustment in case of any contingent events relating to change of payment currency.
- c. The finance department adopts automatic offset principle to address currency risk (i.e. both exports and imports are quoted in USD) and use forward exchange contracts and foreign currency borrowing in view of needs to reduce the effects of exchange rate fluctuation on Company profit.

3. Inflation/ deflation:

Under the rapidly evolving macroeconomic environment, the Company has not been materially affected by the fear of inflation or deflation as described above. The products of the Company are sold mainly in China. By keeping a firm grasp on the price fluctuation of raw materials and end-products and maintaining good rapport with suppliers and clients, and adopting dynamic purchase and sales strategies, adjusting cost structure and trading terms in line with the market situation, the Company is able to effectively minimize the effects of inflation or deflation on Company profit.

7.6.2 Policies regarding high-risk investments, high leverage investments, loans to other parties, endorsements, guarantees, and derivatives transactions; main reasons for the profits/losses generated thereby; and response measures

The Company has established "Procedure for Acquisition and Disposal of Assets", "Procedure for Providing Loans to Others", "Procedure for Endorsement and Guarantee Operation", and "Procedure for Derivatives Transactions" for compliance by the Company and subsidiaries in undertaking related activities. As of date of annual report, the Company did not engage in any high-risk, high-leverage investments or derivatives transactions, but only provide loans to 100% holding subsidiaries and write it off in the consolidated financial statements. However if the Company engages in high-risk, high-leverage investments, or provide endorsements/guarantees, or loans to others or engage in derivatives transactions in the future, the Company's finance will be exposed to high risk, and any material loss therefore could put the Company in financial difficulty or seriously erode the Company's profit margin. But the Company has always focused on its core business and has not branched out into other high-risk industries. The Company also adopts a conservative financial policy and stay away from high-leverage investment. Thus the Company is exposed to limited associated risks.

7.6.3 Future R&D projects and estimated R&D expenditure

1. The Company believes in technology autonomy and develops major process technologies in-house. The Company also puts equal emphasis on new technology and process technology R&D to improve and upgrade technological know-how continuously.
2. The Company expands from mid and low-end automation application into the arena of high-end automation equipment based on existing technology, expansion of product lines and application of end-products.

The Company's R&D expenditure as a percentage of sales revenue was 3.30%, 3.14%, and 2.77% respectively in the past three years, showing a general rising trend. The Company will continue to put in more R&D resources in line with the product development plans. R&D investment in the future is expected to cost as 3% to 4% of the annual sales revenue. If the Company fails to allocate resources to R&D in the future, future product development and R&D projects could be constrained, or the Company's products could no longer keep up with the market trends or customer demands. Furthermore, the Company could lose customer orders that could produce material adverse impact on the Company's operations.

7.6.4 Effect of changes in government policies and legal environment at home and abroad on Company's finance and business, and response measures

The Company is registered in Cayman Islands and operates primarily in Taiwan and China. Cayman Islands is a territory where financial services constitute its major economic activities, whereas China is a major economy in the world. The pneumatic components developed and sold by the Company are not in a concession business. In addition, the Company operates its businesses in compliance with government policies and local and foreign laws. The Company constantly watches the trends of important government policies and changes in legal environment at home and abroad, respond readily to the changing market environment, and take appropriate actions. Up to 90% of the Company's clientele are located in China. The Company's major suppliers are also located in China. Given the special political relationship between China and Taiwan, the businesses of the Company's clients, suppliers, and of the Company itself could be influenced by the political, economic and legal environments in China and Taiwan. If the government policies, tax laws, economic situation or interest rate in China or Taiwan change, or if there are any political, diplomatic or social events involving China and Taiwan that affect the Company's clients or suppliers, the Company's businesses could be affected as well. The Company has been developing clientele and suppliers in other areas to minimize the aforementioned risks.

7.6.5 Effect of recent technological and market changes on the Company's finance and business, and response measures

The modern-day technology evolves constantly. Aside from constantly grasping the trends in the industry, market and technology, the Group also engages in research on plastic and rubber materials with the aim to find the most appropriate materials for innovative application on products. The Company also undertakes innovative research on products and processes with the aims to provide most competitive products and services, and expand market share to address the dynamic industrial environment. As such, changes in technological and market environment are not expected to have any material impact on the Group's finance and business.

7.6.6 Effect of changes in corporate images on Company's risk management and response measures

Guided by the principle of honesty and the spirit of solid pragmatism, the Company has been operating based on the beliefs of "People Oriented, Commitments, Profit Sharing and Common Development" to strengthen internal management, and improve quality and efficiency. The Company continues to bring in outstanding and talented personnel to strengthen the management team. The Company shares its positive operating results with shareholders and acts as a good corporate citizen in giving back to the society. The Company maintains a good corporate image and presently there is no incident that changes corporate image or puts the Company in crisis.

7.6.7 Expected benefits and possible risks associated with any merger and acquisitions, and mitigation measures

The Company did not undergo merger and acquisition in the most recent year and up to the date of annual report. If the Company undergoes merger and acquisition ("M&A") or reorganization in the future, it do not guarantee such activity will have positive effect on Company operations for such activity could keep the Company from focusing on its core business or produce negative impact on the corporate culture or employee retention.

If the Company plans to undergo M&A in the future, the Company will make careful evaluation and submit it to the board of directors in advance for approval, and in addition, propose it to the shareholders' meeting for approval with the adoption of a special (supermajority) resolution in accordance with the Company's articles of association before proceeding with the M&A. Such procedural requirement is to ensure full preparation and communication beforehand so as to minimize any adverse effect of M&A.

7.6.8 Expected benefits and possible risks associated with any plant expansion and mitigation measures

Aside from expanding own capacity in line with growth of the industry, the Company also maintains a long-term cooperative relationship with outside contractors to help regulate capacity utilization, thereby effectively addressing changes in business cycle and market demands.

7.6.9 Risks associated with over-concentration in purchase or sales, and mitigation measures

1. Supplier concentration:

The Company is a pneumatic component manufacturer. Major raw materials for the Group's products include aluminum, copper, steel and plastic materials, which are essential materials for a large number of manufacturers. Thus there are already a large number of suppliers and sufficient supply on the market. The Group is not faced with the problem of finding alternative suppliers. Overall the Group does not run the risk of over-concentration in purchase.

2. Client concentration:

The Group sells primarily pneumatic components which are applied extensively in the automated machinery used in more than 50 industries, such as packaging, printing, plastic, bottle filling, ultrasound, healthcare, pharmaceutical, ceramic, welder, construction, lathe machine, sewing, automation, metallurgy, automobile, electronic, road construction, dyeing and finishing, weighing, textile, plastic, rinsing, and shoe making. No sale to any single customer accounts for more than 2% of the Company's total sales. Thus the Company does not run the risk of client concentration.

7.6.10 Effect on the Company in the event large quantity of shares belonging to a director, supervisor, or shareholder holding more than 10 percent interest in the Company has been transferred or has otherwise changed hands, associated risks and mitigation measures: None.

7.6.11 Effect of changes in management rights on the Company, associated risks and response measures

The Company did not have management rights changing hands in the most recent year and up to the date of annual report. The Company has been stepping up corporate governance by bringing in independent directors and established an audit committee to ensure greater shareholder protection. The Company relies mostly on professional managers in daily operations. The strong professional management team has made considerable contribution to the Company operations and should continue to have the support of shareholders in the future. Thus any change to management rights in the future is not expected to have material negative effect on the competitive advantage of the Company in management and operation.

7.6.12 The outcome of concluded or pending litigious, non-litigious, or administrative litigation events involving the director, supervisor, president, de facto responsible person, major shareholders holding more than 10% interest, or subsidiary of the Company up to the date of annual report that might have material impact on stockholders' equity or Company stock price (facts in dispute, amounts involved, litigation commencement date, parties concerned, and progress as of the date of annual report): None.

7.6.13 Other major risks and response measures

1. Please see the section of the report on factors advantageous and disadvantageous to the future prospects of the Company and response measures for other major operational risks faced by the Company.
2. Risk of patent infringement: Under the trends of global economic liberalization, many companies would use patent infringement lawsuit as a strategic instrument to disrupt the business development of rivals. Thus as the Company continues to grow, the likelihood of facing patent infringement lawsuit from competitors also rises.
3. The Company has set up a unit to take charge of application and management of patents and trademark to protect its intellectual property rights. But those moves cannot assure that the Company's intellectual properties are fully protected from infringement by competitors or other companies.
4. Possible lack of full protection under specific circumstances

The operations of a company are faced with a variety of risks and hazards, such as equipment breakdown, damage or malfunction, delay in delivery of equipment, limited capacity, employee strike, fire, natural disasters (e.g. earthquake or typhoon), environmental hazards or occupational hazards that could produce material adverse effects on the Group's operations. Although the Group has acquired insurance coverage for fixed assets and inventories according to the customary practice at the territory or country of operation, such insurance might not provide full protection under specific circumstances. If the Group sustains loss in any incident thereof, it could have adverse effect on the Group's operations.

7.7 Other Important Affairs: None.

8. Special Disclosure

8.1 Summary of Affiliated Companies:

8.1.1 Organization chart: Please see Company Overview

8.1.2 Profile of affiliates

Unit: NT\$ thousands

Name of Affiliate	Date of establishment	Address	Paid-in capital	Major businesses or products
Airtac Industrial (Hong Kong) Limited	2008.11.10	15/F., BOC Group Life Assurance Tower, 136 Des Voeux Road Central, Central, Hong Kong	USD 87,500 RMB 222,000	General investment
Airtac Trading (Hong Kong) Limited	2008.11.10	15/F., BOC Group Life Assurance Tower, 136 Des Voeux Road Central, Central, Hong Kong	USD -	General investment
Instant Reach International Limited	2006.4.18	P.O. Box 958, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD 2,283 EUR 1,000 RMB 17,500	General investment
Airtac Holding (Singapore) Pte. Ltd.	2011.8.11	12 Gul Drive #01-00 Singapore (629463)	USD 15,000	General investment
Ningbo AirTAC Automatic Industrial Co.	2001.8.16	No. 88, Siming E. Rd., Fenghua Hi-Tech Park, Zhejiang, China	USD 52,000 RMB 135,000	Production of all kinds of pneumatic controlling components and auxiliary parts
Guangdong AirTAC Automatic Industrial Co.	2006.9.30	No. 7, Kaixuan Rd., Songxia Industrial Park, Shishan Town, Nanhai District, Foshan, Guangdong, China	USD 6,000	Production of all kinds of pneumatic controlling components and auxiliary parts
AirTAC (China) Co., Ltd.	2011.5.6	No. 8, Huisheng Rd., Fenghua City, Zhejiang, China	USD 18,000 RMB 126,000	Wholesale, distribution of all kinds of pneumatics, tools and equipments and providing related services
AirTAC (Jiangsu) Automation Co., Ltd.	2015.7.2	Plant 53, No. 2980, Huanqing Rd., Yushan Town, , Kunshan, Jiangsu, China	USD 1,500 RMB 23,000	Wholesale, distribution of all kinds of pneumatics, tools and equipments and providing related services
Guangdong Airtac Machinery Equipment Co., Ltd.	2016.11.30	No.40 Warehouse5th Zone, Tashin Group, No. 48 East Star Road Chenjiang Street, Zhongkai High-Tech. Development Zone, Huizhou City Guangdong, China	RMB 10,000	Wholesale, distribution of all kinds of pneumatics, tools and equipments and providing related services

Name of Affiliate	Date of establishment	Address	Paid-in capital	Major businesses or products
Airtac (Tianjin) Technology Co., Ltd.	2017.9.20	Factory A, 1-3 Floor, D10 of Easter District, No.1 of School west Road, Xiqing School Industrial Area, Tianjin City, China	RMB 10,000	Wholesale, distribution of all kinds of pneumatics, tools and equipments and providing related services
AirTAC Industrial Co.	1989.5.9	No.57, Xinhua 1st St., Taishan Dist., New Taipei City 243, Taiwan (R.O.C.)	NTD 54,581	Production, sales, import and export of machineries and parts
ATC (ITALIA) S.R.L.	2008.6.10	Via San Vittore 16, 20123 Milano, Italy	EUR 4,000	All types of production and sales of pneumatic and hydraulic control elements
Airtac International (Singapore) Pte. Ltd.	2011.8.11	12 Gul Drive #01-00 Singapore (629463)	USD 12,500	Production and sales of pneumatics and auxiliary components
Airtac Co., Ltd.	2013.4.18	3-6-3, Kusune, Higashiosaka-shi, Osaka, Japan (577-0006)	JPY 98,000	Production and sales of pneumatics and auxiliary components
AIRTAC USA CORPORATION	2016.11.4	21401 Park Row Drive, Suite 340, Katy, TX, USA	USD 1,000	Production, sales, import and export of machineries and parts
Airtac Industrial (Malaysia) Sdn. Bhd.	2013.7.16	No 20, Jalan Tiong Emas 1, Kawasan Perindustrian Tiong Nam, 81100 Johor Bahre, Malaysia	MYR 1,000	Production, sales, import and export of machineries and parts
Airtac Industrial Co., Ltd.	2015.4.21	No. 11/12 M00 9, Bangchalong, Bangplee, Samutprakarn, Thailand 10540.	THB 100,000	Production and sales of pneumatics and auxiliary components

8.1.3 Information on same shareholders of the Company and an affiliate in which the Company has controlling or subordinate relationship with: None.

8.1.4 Profile of directors, supervisors and president of subsidiaries and affiliates

Unit: 1,000 shares

Name of affiliate	Title	Name	Shares held (Note)	Shareholding (Note)
Airtac Industrial (Hong Kong) Limited	Chairman	Wang, Shih-Chung	3,623,433	100.00%
Airtac Trading (Hong Kong) Limited	Chairman	Wang, Shih-Chung	-	100.00%
Instant Reach International Limited	Chairman	Wang, Shih-Chung	183,557	100.00%
	Director	Lan, Shun-Cheng		
	Director	Tsao, Yung-Hsiang		
Airtac Holding (Singapore) Pte. Ltd	Chairman	Wang, Shih-Chung	447,429	100.00%
Ningbo AirTAC Automatic Industrial Co., Ltd.	Chairman	Wang, Shih-Chung	2,167,362	100.00%
	GM/Director	Li, Huai-Wen		
	Director	Lan, Shun-Cheng		
	Director	Wang, Hai-Ming		
	Director	Tsao, Yung-Hsiang		
	Supervisor	Yang, Yung-Liang		
Guangdong AirTAC Automatic Industrial Co.	Chairman	Wang, Shih-Chung	178,972	100.00%
	GM/Director	Li, Huai-Wen		
	Director	Lan, Shun-Cheng		
	Director	Wang, Hai-Ming		
	Director	Tsao, Yung-Hsiang		
	Supervisor	Yang, Yung-Liang		
AirTAC (China) Co., Ltd.	Chairman	Wang, Shih-Chung	1,112,105	100.00%
	GM/Director	Li, Huai-Wen		
	Director	Lan, Shun-Cheng		
	Director	Wang, Hai-Ming		
	Director	Tsao, Yung-Hsiang		
	Supervisor	Yang, Yung-Liang		
AirTAC (Jiangsu) Automation Co., Ltd	Chairman	Wang, Shih-Chung	149,738	100.00%
	GM	Xu, Guan-Hua		
	Director	Lan, Shun-Cheng		
	Director	Wang, Hai-Ming		
	Supervisor	Tsao, Yung-Hsiang		
Guangdong Airtac Machinery Equipment Co., Ltd.	Chairman	Wang, Shih-Chung	45,650	100.00%
	GM	Dai, Jia-Xing		
	Supervisor	Tsao, Yung-Hsiang		
Airtac (Tianjin) Technology Co., Ltd.	Chairman	Wang, Shih-Chung	45,650	100.00%
	GM	Zhou, Hong-Yuan		
	Supervisor	Tsao, Yung-Hsiang		

Name of affiliate	Title	Name	Shares held (Note)	Shareholding (Note)
ATC (ITALIA) S.R.L.	Chairman	Tsao, Yung-Hsiang	143,520	100.00%
	Director	Wang, Shih-Chun		
	Director	Lan, Shun-Cheng		
AirTAC Industrial Co.	Chairman	Wang, Shih-Chung	—	—
	Director	Lan, Shun-Cheng	—	—
	Director	Tsao, Yung-Hsiang	—	—
	Director	Lin, Chiang-Ti	—	—
	Director	Lin, Tao-Hsuan	—	—
	Supervisor	Lin, Chian-Ming	—	—
Airtac International (Singapore) Pte. Ltd	Chairman	Wang, Shih-Chung	372,858	100.00%
Airtac Co., Ltd.	Representative Director	Wang, Shih-Chun	25,901	100.00%
	Director	Lan, Shun-Cheng		
	Director	Tsao, Yung-Hsiang		
AIRTAC USA CORPPORATION	Chairman	Wang, Shih-Chun	29,829	100.00%
	Director	Lan, Shun-Cheng		
	Director	Tsao, Yung-Hsiang		
Airtac Industrial (Malaysia) Sdn. Bhd.	Chairman	Wang, Shih-Chun	7,072	100.00%
	Director	Lan, Shun-Cheng		
	Director	Tsao, Yung-Hsiang		
	Director	Nurul Amirah Binti A. Rashid		
Airtac Industrial Co., Ltd	Chairman	Wang Shih-Chung	91,710	100.00%
	Director	Lan, Shun-Cheng		
	Director	Tsao, Yung-Hsiang		

Notes: No shares are provided for it is a limited company and only capital contribution and proportion of contribution are shown.

8.1.5 Operational highlights of affiliates

Unit: NT\$ thousands

Name of Affiliate	Paid-in Capital	Total Assets	Total Liabilities	Net Worth	Operating Income	Operating Profit (Loss)	Profit (Loss) for the period	EPS (\$)
Airtac Industrial (Hong Kong) Limited	3,623,433	17,053,827	618,119	16,435,708	-	(7,058)	3,434,427	Note 1
Airtac Trading (Hong Kong) Limited	-	1,817	50	1,767	-	(140)	(211)	Note 1
Instant Reach International Limited	183,557	102,722	-	102,722	-	(45)	10,644	Note 1
Airtac Holding (Singapore) Pte. Ltd.	447,429	317,277	119	317,158	-	(194)	17,500	Note 1
Ningbo AirTAC Automatic Industrial Co.	2,167,362	11,610,470	1,864,341	9,746,129	7,841,560	2,318,507	2,017,647	Note 1
Guangdong AirTAC Automatic Industrial Co.	178,972	3,429,456	653,772	2,775,684	2,356,963	797,037	594,088	Note 1
AirTAC (China) Co., Ltd.	1,112,105	7,348,815	3,204,137	4,144,678	11,207,372	972,796	977,697	Note 1
AirTAC (Jiangsu) Automation Co., Ltd.	149,738	1,225,680	590,802	634,878	3,213,615	363,334	272,326	Note 1
Guangdong Airtac Machinery Equipment Co., Ltd.	45,650	1,453,373	1,194,021	259,352	2,399,511	281,789	210,869	Note 1
Airtac (Tianjin) Technology Co., Ltd.	45,650	116,252	65,334	50,918	58,498	6,909	5,254	Note 1
AirTAC Industrial Co.	1,000	38,943	1,882	37,061	-	(923)	(1,451)	(14.51)
ATC (ITALIA) S.R.L.	142,280	218,222	142,742	75,480	269,186	22,535	14,800	Note 1
Airtac International (Singapore) Pte. Ltd.	372,858	550,955	237,869	313,086	325,320	17,257	27,599	Note 1
Airtac Co., Ltd.	25,901	71,871	103,247	(31,376)	63,355	(9,017)	(8,680)	Note 1
AIRTAC USA CORPORATION	29,829	27,979	1,283	26,696	-	(3,226)	(3,217)	Note 1
Airtac Industrial (Malaysia) Sdn. Bhd.	7,072	48,253	55,056	(6,803)	41,092	(2,169)	3,703	Note 1
Airtac Industrial Co., Ltd.	91,710	113,547	31,661	81,886	52,974	(195)	1,345	Note 1

Note 1: Earnings per share could not be calculated for it is not a company limited by shares.

Note 2: The amounts were converted to thousand NTD sed on exchange rate on 2017.12.31.

8.1.6 Consolidated financial statements of affiliates: See Appendix 1.

8.1.7 Affiliation report: None.

8.2 Private Placement Securities in the most recent year and up to the date of annual report: None.

8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the most recent year and up to the date of annual report: None.

8.4 Other Necessary Supplementary Explanation: None.

8.5 Any Event Which Has a Material Impact on Shareholders' Equity or Securities Prices Was Stipulated in Subparagraph 2, Paragraph 2, Article 36 of Securities Exchange Act in the Most Recent Fiscal Year and up to the Date of the Publication of the Annual Report: None.

Appendix 1

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Airtac International Group

Opinion

We have audited the accompanying consolidated financial statements of Airtac International Group (the “Company”) and its subsidiaries (collectively referred to as the “Group”), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's Consolidated financial statements for the year ended December 31, 2017 are stated as follows:

Valuation of Inventory

Please refer to Notes 4(6) and 5 to the consolidated financial statements for accounting policy on inventory valuation, and Note 10 to the consolidated financial statements for the detail of the information about the accounting items of inventory. As of December 31, 2017, inventory and the allowance for inventory devaluation was \$4,010,798 thousand and \$49,732 thousand, respectively. Since the allowance for inventory devaluation is subject to management's judgement, which has significant uncertainty, and the result could also affect the value of inventory, it has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included, in addition to testing relevant internal controls, the following:

We sampled the ending balance and the amount of the raw materials, work-in-progress and finished goods and verify with the detail of the inventory. The total amount of the inventories is the same with that in the general ledger.

For raw materials, the latest purchasing price is verified to the latest purchasing information.

For work-in-process and finished goods, the latest selling price is verified to the latest selling information.

Verified the logicity of the aging inventory calculated by the system.

We examined the yearly plan of inventory count and participated the inventory count to evaluate the effectiveness

Re-calculated the amount of the allowance for inventory devaluation.

We determined the differences of the allowance for inventory devaluation estimated by the Group for the year ended in December 31, 2016 and 2015 of each subsidiary. Then, we analysis the variety

of the significant differences of the subsidiaries.

Estimated impairment of trade receivables

Please refer to Notes 4(11) and 5 to the consolidated financial statements for the detail of the information about valuation of allowance for impairment losses recognized on receivables. As of December 31, 2017, trade receivables and the allowance for impairment loss of trade receivables was \$3,461,363 thousand and \$110,524 thousand, respectively. Since the allowance for impairment loss of trade receivables is subject to management's judgement, which has significant uncertainty, and the result could also affect the value of trade receivables, it has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included, in addition to testing relevant internal controls, the following:

We sampled the amount in all credit period of the trade receivable as of December 31, 2016. Then, we verified the supporting documents and invoices to check the credit period is correct.

We issued the conformation letter to the customers of the Group. For those who did not reply to the confirmation letter, we verified the rationality of the ending balance by checking the invoices and supporting documents.

We examined the status of the collection of trade receivables collected in 2017 to determine whether we need to estimate extra impairment loss.

We re-calculated the impairment loss to verify whether the Group estimated impairment loss of trade receivable according to their policy.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China], and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ming-Chung Hsieh and Bo-Ren Weng.

Deloitte & Touche
Taipei, Taiwan
Republic of China
March 12, 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 DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,016,774	7	\$ 1,826,943	8
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 30)	-	-	1,852,023	8
Debt investments with no active market - current (Notes 4, 8 and 32)	6,067	-	8,801	-
Notes receivable (Notes 4, 5 and 9)	2,081,222	7	1,209,185	5
Trade receivables (Notes 4, 5, 9 and 31)	3,350,839	12	2,557,183	11
Other receivables (Notes 4 and 5)	30,957	-	44,644	-
Current tax assets (Note 4)	28,052	-	24,927	-
Inventories (Notes 4, 5 and 10)	3,961,066	14	2,158,315	10
Other current assets (Notes 14 and 15)	<u>405,296</u>	<u>1</u>	<u>174,052</u>	<u>1</u>
Total current assets	<u>11,880,273</u>	<u>41</u>	<u>9,856,073</u>	<u>43</u>
NON-CURRENT ASSETS				
Investments accounted for using equity method (Notes 4, 5 and 12)	-	-	56,858	-
Property, plant and equipment (Notes 4, 13 and 32)	14,786,841	51	11,768,569	51
Other intangible assets (Note 4)	76,410	-	77,156	1
Deferred tax assets (Notes 4 and 22)	370,049	1	272,887	1
Long-term prepayments for lease (Note 14)	479,312	2	453,520	2
Other non-current assets (Note 15)	<u>1,312,707</u>	<u>5</u>	<u>477,849</u>	<u>2</u>
Total non-current assets	<u>17,025,319</u>	<u>59</u>	<u>13,106,839</u>	<u>57</u>
TOTAL	<u>\$ 28,905,592</u>	<u>100</u>	<u>\$ 22,962,912</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 16)	\$ 7,704,455	27	\$ 7,811,568	34
Short-term bills payable (Note 16)	300,000	1	-	-
Notes payable (Note 17)	268,372	1	107,265	-
Trade payables (Note 17)	792,677	3	454,476	2
Other payables (Note 18)	980,746	3	710,787	3
Current tax liabilities (Note 4)	362,459	1	156,604	1
Current portion of long-term loans (Notes 16 and 32)	437,268	2	437,268	2
Other current liabilities (Note 18)	<u>126,737</u>	<u>-</u>	<u>143,462</u>	<u>1</u>
Total current liabilities	<u>10,972,714</u>	<u>38</u>	<u>9,821,430</u>	<u>43</u>
NON-CURRENT LIABILITIES				
Long-term loans (Notes 16 and 32)	1,600,111	6	2,035,049	9
Deferred tax liabilities (Notes 4 and 22)	<u>370,750</u>	<u>1</u>	<u>354,236</u>	<u>1</u>
Total non-current liabilities	<u>1,970,861</u>	<u>7</u>	<u>2,389,285</u>	<u>10</u>
Total liabilities	<u>12,943,575</u>	<u>45</u>	<u>12,210,715</u>	<u>53</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 20)				
Share capital	1,890,250	6	1,790,250	8
Capital surplus	6,870,172	24	3,906,960	17
Retained earnings	7,610,806	26	5,294,959	23
Other equity	<u>(419,109)</u>	<u>(1)</u>	<u>(351,954)</u>	<u>(2)</u>
Total equity attributable to owners of the Company	15,952,119	55	10,640,215	46
NON-CONTROLLING INTERESTS	<u>9,898</u>	<u>-</u>	<u>111,982</u>	<u>1</u>
Total equity	<u>15,962,017</u>	<u>55</u>	<u>10,752,197</u>	<u>47</u>
TOTAL	<u>\$ 28,905,592</u>	<u>100</u>	<u>\$ 22,962,912</u>	<u>100</u>

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE				
Sales (Notes 4 and 31)	\$ 13,717,905	100	\$ 10,621,618	100
OPERATING COSTS				
Cost of goods sold (Notes 10 and 21)	<u>(6,590,733)</u>	<u>(48)</u>	<u>(5,186,346)</u>	<u>(49)</u>
GROSS PROFIT	<u>7,127,172</u>	<u>52</u>	<u>5,435,272</u>	<u>51</u>
OPERATING EXPENSES (Note 21)				
Selling and marketing expenses	(1,663,342)	(12)	(1,545,347)	(14)
General and administrative expenses	(942,183)	(7)	(836,531)	(8)
Research and development expenses	<u>(380,519)</u>	<u>(3)</u>	<u>(333,726)</u>	<u>(3)</u>
Total operating expenses	<u>(2,986,044)</u>	<u>(22)</u>	<u>(2,715,604)</u>	<u>(25)</u>
PROFIT FROM OPERATIONS	<u>4,141,128</u>	<u>30</u>	<u>2,719,668</u>	<u>26</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 21)				
Other income	26,915	-	27,345	-
Other gains and losses	357,555	3	242,877	2
Finance costs	<u>(168,428)</u>	<u>(1)</u>	<u>(141,881)</u>	<u>(1)</u>
Total non-operating income and expenses	<u>216,042</u>	<u>2</u>	<u>128,341</u>	<u>1</u>
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	4,357,170	32	2,848,009	27
INCOME TAX EXPENSE (Notes 4 and 22)	<u>(1,057,389)</u>	<u>(8)</u>	<u>(819,959)</u>	<u>(8)</u>
NET PROFIT FOR THE YEAR	<u>3,299,781</u>	<u>24</u>	<u>2,028,050</u>	<u>19</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefits plans	-	-	(559)	-
Exchange differences arising on translation to the presentation currency	(82,983)	-	(825,536)	(8)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	<u>15,847</u>	<u>-</u>	<u>53,712</u>	<u>1</u>

(Continued)

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
Other comprehensive income for the year, net of income tax	<u>(67,136)</u>	<u>-</u>	<u>(772,383)</u>	<u>(7)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,232,645</u>	<u>24</u>	<u>\$ 1,255,667</u>	<u>12</u>
NET PROFIT ATTRIBUTABLE TO:				
Owner of the Company	\$ 33,300,103	243	\$ 1,918,675	18
Non-controlling interests	<u>(322)</u>	<u>-</u>	<u>109,375</u>	<u>1</u>
	<u>\$ 33,299,781</u>	<u>243</u>	<u>\$ 2,028,050</u>	<u>19</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	\$ 3,232,948	24	\$ 1,147,123	11
Non-controlling interests	<u>(303)</u>	<u>-</u>	<u>108,544</u>	<u>1</u>
	<u>\$ 3,232,645</u>	<u>24</u>	<u>\$ 1,255,667</u>	<u>12</u>
EARNINGS PER SHARE (Note 23)				
Basic	<u>\$ 18.07</u>		<u>\$ 10.72</u>	
Diluted	<u>\$ 18.04</u>		<u>\$ 10.70</u>	

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company									
						Other Equity				
	Share Capital			Retained Earnings						
	Shares (In Thousands)	Ordinary Shares	Capital Surplus (Note 20)	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, 2016	179,025	\$ 1,790,250	\$ 3,906,960	\$ 4,059,773	\$ 77,474	\$ 419,000	\$ 5,139	\$ 10,258,596	\$ 150,256	\$ 10,408,852
Special reserve under Rule No. 1010012865 issued by the FSC	-	-	-	12,545	(12,545)	-	-	-	-	-
Appropriation of 2015 earnings										
Cash dividends distributed by the Company	-	-	-	(716,100)	-	-	-	(716,100)	-	(716,100)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	(24,605)	(24,605)
Changes in percentage of ownership interest in subsidiaries (Note 26)	-	-	-	(44,863)	-	(6,052)	1,511	(49,404)	(52,219)	(101,623)
Decrease in non-controlling interests	-	-	-	-	-	-	-	-	(69,994)	(69,994)
Net profit for the year ended December 31, 2016	-	-	-	1,918,675	-	-	-	1,918,675	109,375	2,028,050
Other comprehensive income for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(771,164)	(388)	(771,552)	(831)	(772,383)
Total comprehensive income for the year ended December 31, 2016	-	-	-	1,918,675	-	(771,164)	(388)	1,147,123	108,544	1,255,667
BALANCE AT DECEMBER 31, 2016	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)
Issuance of ordinary shares for cash	10,000	100,000	2,900,000	-	-	-	-	3,000,000	-	3,000,000
Recognition of employee share options by the Company	-	-	70,090	-	-	-	-	70,090	-	70,090
Transaction costs attributable to issue of new ordinary shares	-	-	(6,878)	-	-	-	-	(6,878)	-	(6,878)
Net profit for the year ended December 31, 2017	-	-	-	3,300,103	-	-	-	3,300,103	(322)	3,299,781
Other comprehensive income for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(67,155)	-	(67,155)	19	(67,136)
Total comprehensive income for the year ended December 31, 2017	-	-	-	3,300,103	-	(67,155)	-	3,232,948	(303)	3,232,645
BALANCE AT DECEMBER 31, 2017	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

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

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 4,357,170	\$ 2,848,009
Adjustments for:		
Depreciation expenses	818,729	750,694
Amortization expenses	15,054	15,760
Impairment loss recognized (reversal of impairment loss) on trade receivables	24,610	29,837
Net gain on financial assets at fair value through profit or loss	(31,480)	(47,851)
Finance costs	168,428	141,881
Interest income	(26,915)	(27,345)
Share of losses of associates	4,102	7,737
Loss (gain) on disposal of property, plant and equipment	22,008	(516,392)
Loss on disposal of associates	5,606	-
Write-down of inventories	20,351	29,860
Impairment loss recognized on investment in subsidiaries	-	45,214
Net loss on foreign currency exchange	(61,144)	44,180
Amortization of prepayments for lease	3,267	3,139
Changes in operating assets and liabilities:		
Increase in notes receivables	(874,617)	(308,897)
Increase in trade receivables	(837,787)	(727,261)
(Increase) decrease in other receivables	12,165	(11,086)
Increase in inventories	(1,820,487)	(395,992)
(Increase) decrease in other current assets	(173,765)	61,086
(Increase) decrease in net defined benefit assets	8	(6,969)
Increase in notes payable	160,246	70,900
Increase in trade payables	339,064	137,872
Increase in other payables	158,409	215,833
Increase (decrease) in other current liabilities	(14,917)	10,478
Decrease in accrued pension liabilities	-	(28,369)
Cash generated from operations	2,268,105	2,342,318
Interest received	27,862	26,680
Interest paid	(166,026)	(141,542)
Income tax paid	(958,446)	(784,482)
Net cash generated from operating activities	<u>1,171,495</u>	<u>1,442,974</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets designated as at fair value through profit or loss	(1,045,578)	(8,427,388)
Proceeds on sale of financial assets designated as at fair value through profit or loss	2,884,906	7,502,975
Purchase of debt investments with no active market	(103)	(5,488)
Proceeds on sale of debt investments with no active market	2,704	2,403
Net cash inflow on disposal of subsidiaries	56,729	-
Payments for property, plant and equipment	(3,816,573)	(1,545,529)

(Continued)

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	2017	2016
Proceeds from disposal of property, plant and equipment	23,377	1,047,511
Increase in refundable deposits	(39,818)	(17,704)
Decrease in refundable deposits	13,596	12,671
Payments for intangible assets	(14,986)	(12,442)
Increase in prepayments for equipment	(835,654)	(67,647)
Increase in prepayments for lease	(33,773)	(357,152)
Net cash outflow on acquisition of subsidiaries (Note 26)	<u>-</u>	<u>(101,623)</u>
Net cash used in investing activities	<u>(2,805,173)</u>	<u>(1,969,413)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	2,993,122	-
Proceeds from short-term loans	213,307	1,494,472
Repayments of (Proceeds from) short-term bills payable	300,000	(40,000)
Repayments of long-term loans	(437,268)	(627,244)
Dividends paid to owners of the Company	(984,256)	(716,100)
Dividends paid to non-controlling interests	(101,781)	(24,605)
Decrease in non-controlling interests	<u>-</u>	<u>(69,994)</u>
Net cash generated from financing activities	<u>1,983,124</u>	<u>16,529</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(159,615)</u>	<u>253,023</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	189,831	(256,887)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,826,943</u>	<u>2,083,830</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,016,774</u>	<u>\$ 1,826,943</u>

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 YEARS ENDED DECEMBER 31, 2017 and 2016

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

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 11.

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 March 12, 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: 2010-2012 Cycle

Several standards, including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments”, were amended in this annual improvement.

The amended IFRS 2 changes the definitions of “vesting condition” and “market

condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group, but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017. Refer to Note 24 for related disclosures.

2) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and impairment of goodwill are enhanced. Refer to Note 31 for related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendment to IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of investment property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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 amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments”

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows

- (a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- (b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other

comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			

Financial assets measured at amortized cost - current	\$ -	\$ 17,322	\$ 17,322
Debt investments with no active market - current	6,067	(6,067)	-
Trade receivables	3,350,839	(16,618)	3,334,221
Other current assets			
Other financial asset	<u>11,255</u>	<u>(11,255)</u>	<u>-</u>
Total effect on assets	<u>\$ 3,368,161</u>	<u>\$ (16,618)</u>	<u>\$ 3,351,543</u>
Retained earnings, total effect on equity	<u>\$ -</u>	<u>\$ (16,618)</u>	<u>\$ -</u>

2) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- (a) Identify the contract with the customer;
- (b) Identify the performance obligations in the contract;
- (c) Determine the transaction price;
- (d) Allocate the transaction price to the performance obligations in the contracts; and
- (e) Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is

assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

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 will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the interpretation.

The anticipated impact of the initial application of IFRSs for application starting from 2018 is summarized as below:

Impact on Assets, Liabilities and Equity

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Financial assets measured at amortized cost - current	\$ -	\$ 17,322	\$ 17,322
Debt investments with no active market - current	6,067	(6,067)	-
Trade receivables	3,350,839	(16,618)	3,334,221
Other current assets			
Other financial asset	<u>11,255</u>	<u>(11,255)</u>	<u>-</u>
Total effect on assets	<u>\$ 3,368,161</u>	<u>\$ (16,618)</u>	<u>\$ 3,351,543</u>
Retained earnings, total effect on equity	<u>\$ -</u>	<u>\$ (16,618)</u>	<u>\$ -</u>

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group assesses that there is no material impact that the application of other standards and interpretations will have on the Group's financial position and financial performance.

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

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)
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 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
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: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from 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.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

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.

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, and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, 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.

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 date of acquisition up to the effective date of disposal, 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 Group's interests 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 11 and Table 2 for the detailed information of subsidiaries (including the percentage of ownership and 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.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

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's 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

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

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 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

Financial liabilities using the effective interest method at amortized cost.

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.

1. Revenue Recognition

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.

The Group as lessee

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.

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 Grants

Government grants 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 grants 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 rereasurement) 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. Rereasurement, 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. Rereasurement 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.

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. Share-based Payment Arrangements

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of share options that are expected to ultimately vest, with a corresponding increase

in capital surplus-employee share options. It is recognized as an expense in full in the grant date if vest immediately.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

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 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 notes and trade receivables and other receivables

When there is objective evidence that an impairment indicator, the combined company will consider the estimation of future cash flows. The amount of impairment loss based on the carrying amount of the asset and the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the effective discounted at the original interest rate of the financial asset between the measure. If the actual future cash flows are less than expected, a material impairment loss may arise.

b.Write-down of inventories

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

c.Impairment of investment in the associate

The Group immediately recognizes impairment loss on its net investment in the associate when there is any indication that the investment may be impaired and the carrying amount may not be recoverable. The Group's management evaluates the impairment based on the

estimated future cash flow expected to be generated by the associate, including growth rate of sale and capacity of production facilities estimated by the associate's management. The Group also takes into consideration the market conditions and industry development to evaluate the appropriateness of assumptions.

6. CASH AND CASH EQUIVALENTS

	December 31, 2017	December 31, 2016
Cash on hand	\$ 1,666	\$ 2,141
Checking accounts	134,053	38,953
Demand deposits	1,335,540	1,107,064
Cash equivalent		
Time deposits with original maturities less than three months	<u>545,515</u>	<u>678,785</u>
	<u>\$2,016,774</u>	<u>\$1,826,943</u>

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

	December 31, 2017	December 31, 2016
	0.001%~0.3	0.001%~0.3
Bank balance	5%	5%
	0.90%~3.00	1.10%~9.47
Time deposits	%	%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2017	December 31, 2016
<u>Financial assets at FVTPL- current</u>		
Financial assets designated as at FVTPL		
Structured deposits	\$ -	\$1,852,023

The Group signed a contract of structural time deposits. The structured time deposits contract contains an embedded derivative not closely related to the host contract. The Group designated the entire contract as a financial assets at fair value through profit or loss.

At the end of the reporting period, outstanding structured deposits were as follow:

December 31, 2016

Nature of financial instrument	Contract period	Amount of the contract	Fair value
Structured deposits	2016.09.28~2017.01.04	\$ 46,170	\$ 46,556
Structured deposits	2016.10.18~2017.01.18	138,510	139,422
Structured deposits	2016.11.29~2017.03.01	138,510	138,893
Structured deposits	2016.12.01~2017.03.01	92,340	92,583
Structured deposits	2016.12.07~2017.02.07	46,170	46,266
Structured deposits	2016.12.27~2017.02.27	69,255	69,280
Structured deposits	2016.12.27~2017.01.10	46,170	46,184
Structured deposits	2016.12.28~2017.01.04	46,170	46,179
Structured deposits	2016.09.28~2017.01.04	92,340	93,113
Structured deposits	2016.12.19~2017.03.20	253,935	254,202
Structured deposits	2016.12.09~2017.01.04	138,510	138,727
Structured deposits	2016.10.10~2017.01.10	138,510	139,521
Structured deposits	2016.12.08~2017.03.08	115,425	115,654
Structured deposits	2016.12.20~2017.02.20	138,510	138,644
Structured deposits	2016.12.27~2017.01.10	115,425	115,458
Structured deposits	2016.12.28~2017.01.05	92,340	92,357
		<u>\$ 1,846,800</u>	<u>\$ 1,852,023</u>

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET-CURRENT

	December 31, 2017	December 31, 2016
Time deposits with original maturities more than three months	\$ 6,067	\$ 8,801

The market interest rates of the time deposits with original maturity more than 3 months were 3.25% and 0.35%~3.25% per annum as of December 31, 2017 and 2016.

Refer to Note 32 for information relating to debt investments with no active market pledged as security.

9. NOTES RECEIVABLE AND TRADE RECEIVABLES

	December 31, 2017	December 31, 2016
<u>Notes receivable</u>		
Notes receivable	\$ 2,081,771	\$ 1,209,481
Less: Allowance for impairment loss	(<u>549</u>)	(<u>296</u>)
	<u>\$ 2,081,222</u>	<u>\$ 1,209,185</u>
<u>Trade receivables</u>		
Trade receivables	\$ 3,461,363	\$ 2,672,720
Less: Allowance for impairment loss	(<u>110,524</u>)	(<u>115,537</u>)
	<u>\$ 3,350,839</u>	<u>\$ 2,557,183</u>

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.

Age of individually impaired trade receivables was as follow:

	December 31, 2017	December 31, 2016
0 ~90 days	\$ 2,725,451	\$ 2,008,406
91~180 days	475,552	475,552
181~365days	599,324	113,299
366~730	89,589	52,095
Over than 180 days	<u>21,783</u>	<u>23,368</u>
	<u>\$ 3,461,363</u>	<u>\$ 2,672,720</u>

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 Year ended December 31	
	2017	2016
Balance at January 1	\$ 115,833	\$ 104,249
Add: Allowance for impairment losses recognized on receivables	24,610	29,837
Less: Amounts written off as uncollectible	(28,341)	(9,273)
Effect of exchange rate changes	(<u>1,029</u>)	(<u>8,980</u>)
Balance at December 31	<u>\$ 111,073</u>	<u>\$ 115,833</u>

10. INVENTORIES

	December 31, 2017	December 31, 2016
Raw materials	\$1,197,570	\$ 628,155
Finished goods	1,821,742	917,395
Work in progress	<u>941,754</u>	<u>612,765</u>
	<u>\$3,961,066</u>	<u>\$2,158,315</u>

As of December 31, 2017 and 2016, the allowance for inventory devaluation was \$49,732 thousand and \$50,997 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$6,590,733 thousand and \$5,186,346 thousand, respectively. The cost of goods sold included inventory write-downs of \$20,351 thousand and \$29,860 thousand, respectively. The cost of goods sold included loss on disposal of inventory write-down of \$22,623 thousand and \$13,488 thousand, respectively.

The cost of goods sold included scraps for the years ended December 31, 2017 and 2016 was \$116,948thousand and \$62,707 thousand, respectively.

11. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements

Investor	Investee	Proportion of Ownership	
		December 31, 2017	December 31, 2016
Airtac International Group	Airtac Trading (Hong Kong) Limited	100	100
	Airtac Industrial (Hong Kong) Limited	100	100
	Instant Reach International Limited	100	100
	Airtac Holding (Singapore) Pte. Ltd.	100	100
Airtac Industrial (Hong Kong) Limited	Ningbo Airtac Automatic Industrial Co., Ltd.	100	100
	Guangdong Airtac Automatic Industrial Co., Ltd.	100	100
	Airtac (China) Co., Ltd.	100	100
	Airtac (Jiangsu) Automatic Co., Ltd.	100	100
Instant Reach International Limited	ATC (Italia) S.R.L.	100	100
	Airtac Industrial Co., Ltd.	69.44	69.44
Airtac Holding (Singapore) Pte. Ltd.	Airtac International (Singapore) Pte. Ltd.	100	100
	Airtac Co., Ltd.	100	100
	Airtac USA Corporation	100	100
Airtac International (Singapore) Pte. Ltd.	Airtac Industrial (Malaysia) Sdn. Bhd.	100	100
	Airtac Industrial (Thailand) Co., Ltd.	100	100
Airtac (China) Co., Ltd.	Guangdong Airtac Machinery Equipment Co., Ltd.	100	-
	Airtac (Tianjin) Technology Co., Ltd.	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. primarily in the production, R&D, distribution, storage of industrial con was established on May 6, 2011 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. 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.

To centralize the stock right, the board of directors passed a proposal in its meeting on March 25, 2016 to acquire 15.78% of shares of Airtac Industrial Co., Ltd. The transaction price is \$101,623 thousand in cash and has been paid in April 2016. The ownership of Airtac Industrial Co., Ltd. held by the Group is increased from 53.66% to 69.44%.
The shareholders' meeting of Airtac Industrial Co. Ltd. approved to transfer the value of the employees of Airtac Industrial Co. Ltd. to Airtac International Group Taiwan Branch by assignment of business. The transferee pay the price by which is determined the outside appraisal report the cash. The transaction price is \$6,247 thousand.
To adjust the organization structure of the Company, the shareholders' meeting of Airtac Industrial Co., Ltd. approved to reduce capital on September 12, 2016. The capital reduction plan involve the cancellation of \$10 per share or 99.57% of paid-in capital. The company received \$159,006 thousand in cash of capital reduction.
- 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 components. 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.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in associates

	December 31, 2017	December 31, 2016
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Unlisted company

AMA Tech Corp.

\$ - \$ 56,858

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	December 31, 2017	December 31, 2016
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. This transaction resulted in the recognition of a loss in profit or loss, calculated as follows:

Proceeds of disposal	\$ 56,729
Less: Carrying amount of investment on the date of loss of significant influence	(52,756)
Less: Share of other comprehensive income of the associate	(<u>9,579</u>)
Loss recognized	(\$ <u>5,606</u>)

At December 31, 2016, the carrying amounts of the Group's interests in listed investments were higher than their respective recoverable amount. The management of the Group carried out impairment review by comparing their respective recoverable amount with the carrying amount. The recoverable amount of an investment in an associate is assessed for each associate. Based on the assessments, the recoverable amounts of the Group's interests in AMA Tech Corp. was less than their carrying amounts. Hence, impairment losses of \$45,214 thousand was recognized in profit or loss for the year ended December 31, 2016.

Impairment loss recognized on the Group's investments in associates was as follows:

**For the Year Ended
December 31**

Name of Associate	2017	2016
AMA Tech Corp.	\$ -	\$ 45,214

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 was based on the associates' unaudited financial statements for the same years.

Aggregate information of associates are followed:

	December 31, 2016
Total assets	\$ 299,297
Total liabilities	\$ 15,007
	For the Year ended
	December 31, 2016
Total Revenue	\$ 51,849
Net Loss	(\$ 38,684)

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Office facilities and other equipment	Property in construction	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 1,049,016	\$ 5,143,998	\$ 3,908,762	\$ 304,858	\$ 1,082,116	\$ 3,262,850	\$ 14,751,600
Additions	1,031	72,239	938,499	17,861	138,205	376,733	1,544,838
Disposals	(159,958)	(426,523)	(132,446)	(38,733)	(95,325)	-	(852,985)
Reclassification	-	3,231,101	70,828	9,682	34,655	(3,346,266)	-
Effect of foreign currency exchange differences	-	(363,051)	(312,478)	(14,609)	(78,044)	(46,771)	(814,953)
Balance at December 31, 2016	<u>\$ 890,359</u>	<u>\$ 7,657,764</u>	<u>\$ 4,473,165</u>	<u>\$ 279,059</u>	<u>\$ 1,081,607</u>	<u>\$ 246,546</u>	<u>\$ 14,628,500</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2016	\$ -	\$ 679,109	\$ 1,257,211	\$ 164,556	\$ 567,893	\$ -	\$ 2,668,769
Depreciation expenses	-	183,997	350,280	53,107	163,310	-	750,694
Disposals	-	(114,137)	(97,683)	(29,735)	(80,311)	-	(321,866)
Reclassification	-	-	-	194	(194)	-	-
Effect of foreign currency exchange differences	-	(45,064)	(121,842)	(19,770)	(50,990)	-	(237,666)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 703,905</u>	<u>\$ 1,387,966</u>	<u>\$ 168,352</u>	<u>\$ 599,708</u>	<u>\$ -</u>	<u>\$ 2,859,931</u>
Carrying amount at December 31, 2016	<u>\$ 890,359</u>	<u>\$ 6,953,859</u>	<u>\$ 3,085,199</u>	<u>\$ 110,707</u>	<u>\$ 481,899</u>	<u>\$ 246,546</u>	<u>\$ 11,768,569</u>
<u>Cost</u>							
Balance at January 1, 2017	\$ 890,359	\$ 7,657,764	\$ 4,473,165	\$ 279,059	\$ 1,081,607	\$ 246,546	\$ 14,628,500
Additions	-	35,915	2,140,877	71,469	176,600	1,508,124	3,932,985
Disposals	-	-	(91,498)	(45,947)	(119,445)	-	(256,890)
Reclassification	-	70,318	416	7,731	2,409	(81,568)	(694)
Effect of foreign currency exchange differences	-	(50,524)	(30,294)	(3,995)	(2,802)	6,626	(80,989)
Balance at December 31, 2017	<u>\$ 890,359</u>	<u>\$ 7,713,473</u>	<u>\$ 6,492,666</u>	<u>\$ 308,317</u>	<u>\$ 1,138,369</u>	<u>\$ 1,679,728</u>	<u>\$ 18,222,912</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 703,905	\$ 1,387,966	\$ 168,354	\$ 599,708	\$ -	\$ 2,859,931
Depreciation expenses	-	184,213	439,294	44,662	150,560	-	818,729
Disposals	-	-	(62,376)	(33,529)	(115,600)	-	(211,505)
Reclassification	-	36	-	-	-	-	36
Effect of foreign currency exchange differences	-	7,802	(23,945)	(12,803)	(2,174)	-	(31,120)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 895,956</u>	<u>\$ 1,740,939</u>	<u>\$ 166,682</u>	<u>\$ 632,494</u>	<u>\$ -</u>	<u>\$ 3,436,071</u>
Carrying amount at December 31, 2017	<u>\$ 890,359</u>	<u>\$ 6,817,517</u>	<u>\$ 4,751,727</u>	<u>\$ 141,635</u>	<u>\$ 505,875</u>	<u>\$ 1,679,728</u>	<u>\$ 14,786,841</u>

The Group disposed the plant located in Baiyun district in Guangzhou city in June 2016. The carrying amount of the plant was \$50,318 thousand and the Group recognized \$175,190 thousand of gain in profit or loss when disposed the plant.

The Group disposed the plant located in Tucheng district in New Taipei city in September 2016. The carrying amount of the plant was \$441,449 thousand and the Group recognized \$358,551 thousand of gain in profit or loss when disposed the plant.

There was no impairment indication for property, plant and equipment. The Group did not recognize any impairment loss for the years ended December 31, 2016 and 2015.

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 equipment	2-15 years

Refer to Note 32 for the carrying amount of property, plant and equipment pledged by the Group to secure bank loans.

14. PREPAYMENTS FOR LEASE

	December 31, 2017	December 31, 2016
Current asset	<u>\$ 3,309</u>	<u>\$ 3,346</u>
Non-current asset	<u>\$ 479,312</u>	<u>\$ 453,520</u>

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

15. OTHER ASSETS

	December 31, 2017	December 31, 2016
<u>Current</u>		
Excess VAT paid	\$ 238,815	\$ 73,734
Prepayments	42,091	47,997
Prepaid tax expenses	2,206	802
Prepaid expenses	75,031	48,096
Refundable deposits	32,548	-
Prepayments for lease	3,309	3,346
Other financial assets	11,255	-
Others	41	77
	<u>\$ 405,296</u>	<u>\$ 174,052</u>
<u>Non-current</u>		
Prepayments for equipment	\$1,283,107	\$ 441,635

Refundable deposits	22,639	29,245
Net defined benefit assets	<u>6,961</u>	<u>6,969</u>
	<u>\$1,312,707</u>	<u>\$ 477,849</u>

16. LOANS

(1) Short-term loans

	December 31, 2017	December 31, 2016
<u>Unsecured loans</u>		
Line of credit loans	<u>\$ 7,704,455</u>	<u>\$ 7,811,568</u>

The range of interest rate on bank loans was 0.85%-2.76% and 1.02%-2.25% per annum as of December 31, 2017 and 2016, respectively.

(2) Short-term bills payable

	December 31, 2017	December 31, 2016
Commercial paper	<u>\$ 300,000</u>	<u>\$ -</u>

Outstanding short-term bills payable were as follows:
December 31, 2017

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

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

(3) Long-term loans

	December 31, 2017	December 31, 2016
<u>Secured loans</u>		
Between May, 2014 and May 2019 (with interest rate of 1.790%)	\$ 2,040,584	\$ 2,477,852
Deduct: Current portion	(437,268)	(437,268)
Deduct: Syndication loan charge fee	<u>(3,205)</u>	<u>(5,535)</u>
	<u>\$ 1,600,111</u>	<u>\$ 2,035,049</u>
Long-term loans		

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 32 for the information relating to the Group's assets pledged as collateral bank loans.

17. 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.

18. OTHER LIABILITIES

	December 31, 2017	December 31, 2016
<u>Current</u>		
Other payables		
Payables for purchase of equipment	\$ 221,118	\$ 104,379
Salaries and bonus	692,901	561,030
Others	<u>66,721</u>	<u>45,378</u>
	<u>\$ 980,746</u>	<u>\$ 710,787</u>
Other current liabilities		
Other taxes	\$ 61,488	\$ 73,880
Account collected in advance	55,619	61,836
Others	<u>9,630</u>	<u>7,746</u>
	<u>\$ 126,737</u>	<u>\$ 143,462</u>

19. RETIREMENT BENEFIT PLANS

a. 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.

b. Defined benefit plans

The defined benefit plan adopted by Airtac Industrial Co. of the Group in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. Airtac Industrial Co. contribute amounts equal to 3% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name.

Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group has no right to influence the investment policy and strategy.

The actuarial valuations of the present value of the defined benefit obligation of Airtac Industrial Co. Ltd. was not carried out by qualified actuaries. However, the Group considers that there would make no material impact on the consolidated statements.

The amounts included in the consolidated balance sheets in respect of the Group’s defined benefit plans were as follows:

	December 31, 2016		
Present value of defined benefit obligation		\$ 3,403	
Fair value of plan assets		(10,372)	
Deficit		(6,969)	
Unrecognized past service cost		-	
Net defined benefit liability		(\$ 6,969)	
Movements in net defined benefit liability (asset) were as follows:			
	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2016	\$ 40,239	(\$ 11,870)	\$ 28,369
Service cost			
Current service cost	609	-	609
Gain on curtailment	(36,398)	-	(36,398)
Interest expense (income)	536	(182)	354
Recognized in profit or loss	(35,253)	(182)	(35,435)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	99	99
Actuarial (gain) loss - changes in financial assumptions	4,853	-	4,853
Actuarial (gain) loss - experience adjustments	(4,393)	-	(4,393)
Recognized in other comprehensive income	460	99	559
Contributions from employer	-	(462)	(462)
Benefits paid	(2,043)	2,043	-
Balance at December 31, 2016	\$ 3,403	(\$ 10,372)	(\$ 6,969)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2017	2016
General and administrative expenses	\$ <u>8</u>	<u>(\$ 35,435)</u>

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government or corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31, 2016
Discount rate(s)	1.13%
Expected rate(s) of salary increase	3.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31, 2016
Discount rate(s)	
0.25% increase	<u>(\$ 77)</u>
0.25% decrease	<u>\$ 79</u>
Expected rate(s) of salary increase	

0.25% increase	\$ 76
0.25% decrease	(\$ 74)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31, 2016
The expected contributions to the plan for the next year	\$ 9
The average duration of the defined benefit obligation	9.2 years

20. EQUITY

a. Share capital

Ordinary shares

	December 31, 2017	December 31, 2016
Numbers of shares authorized (in thousands)	<u>200,000</u>	<u>200,000</u>
	<u>\$ 2,000,00</u>	<u>\$ 2,000,00</u>
Shares authorized	<u>0</u>	<u>0</u>
Number of shares issued and fully paid (in thousands)	<u>189,025</u>	<u>179,025</u>
	<u>\$ 1,890,25</u>	<u>\$ 1,790,25</u>
Shares issued	<u>0</u>	<u>0</u>

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

	December 31, 2017	December 31, 2016
<u>Used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Issuance of ordinary shares	\$ 6,123,279	\$ 3,160,768
Organization Reconstruction	704,640	704,640
Donations	<u>41,552</u>	<u>41,552</u>
	<u>6,869,471</u>	<u>3,906,960</u>

Used to offset a deficit only

Void employee share option (2)	701	-
	<u>\$ 6,870,172</u>	<u>\$ 3,906,960</u>

- 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 24.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on May 18, 2016 and had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

According to the new retained earnings distribution policy in the revised Article of Incorporation of the Company, if the Company has earning upon settlement for a fiscal year, after taxes are paid by law and accumulated deficits are set off, ten percent shall be appropriated as legal earning reserves; however, if the amount of the legal earning reserves has attained the amount of paid-in capital of the Company, no further appropriation shall be made. The remainder shall be appropriated or reversed as special earning reserves. If there still has balance, considering together with accumulated undistributed earnings, the board of directors shall prepare the proposal for earning distribution, which shall be submitted to the shareholders' meeting for a resolution of 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 revised policy of employees' compensation and remuneration to directors, please refer to Note 21 f. Employee Benefits Expense.

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 2016 and 2015 approved in the shareholders' meetings on May 16, 2017 and May 18, 2016 were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2016	For Year 2015	For Year 2016	For Year 2015
Special reserve reversed	\$ 43,487	\$ 12,545	\$ -	\$ -
Cash dividends	984,256	716,100	5.5	4

The shareholders' meeting approved to issue cash dividends from capital surplus of RMB \$219,896 thousand, RMB \$1.2283 per share on May 16, 2017. The actual amount

converted and paid in New Taiwan Dollars were 984,256 thousand, 5.5 per share. The exchange rate is based on the rate on July 4, 2017.

The appropriations of earnings for 2017 had been proposed by the board of directors on March 12, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Special reserve provided	\$ 16,451	\$ -
Cash dividends	1,397,878	7.4

The Company's board of directors proposed to issue cash dividends from capital surplus of RMB \$302,440 thousand (NT\$1,397,878 thousand), RMB \$1.6 (NT\$7.4) per share, in the shareholders' meeting on March 12, 2018.

The appropriation of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held on June 11, 2018.

d. Other equity items

Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	(\$ 358,216)	\$ 419,000
Exchange differences on translating foreign operations	15,331	53,712
Exchange differences on translating to presentation currency	(82,486)	(824,876)
Changes in percentage of ownership interest in subsidiaries	-	(6,052)
Balance at December 31	(\$ 425,371)	(\$ 358,216)

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.

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

Net income from continuing operations includes:

a. Other income

	For the Year ended December 31	
	2017	2016
<u>Interest revenue</u>		
Bank deposits	\$ 26,915	\$ 27,345

b. Other gains and losses

	For the Year ended December 31	
	2017	2016
Net foreign exchange losses	\$ 274,054	(\$ 348,374)
Net gain arising on financial assets designated as at FVTPL	31,480	47,851
Government grants	82,215	81,120
Gain (Loss) on disposal of property, plant and equipment	(22,008)	516,392
Loss on disposal of associates	(5,606)	-
Share of the loss of associates (Note 12)	(4,102)	(7,737)
Impairment loss on investments in associates	-	(45,214)
Others	(1,522)	(1,161)
	<u>\$ 357,555</u>	<u>\$ 242,877</u>

c. Financial costs

	For the Year ended December 31	
	2017	2016
Interest on bank loans	<u>\$ 168,428</u>	<u>\$ 141,881</u>

Information about capitalized interest was as follows:

	For the Year ended December 31	
	2017	2016
Capitalized interest	\$ 5,734	\$ 12,031
Capitalized interest rate	1.53%	1.79%

d. Depreciation and amortization

	For the Year ended December 31	
	2017	2016
Property, plant and equipment	\$ 818,729	\$ 750,694
Intangible assets	<u>15,054</u>	<u>15,760</u>
	<u>\$ 833,783</u>	<u>\$ 766,454</u>
An analysis of deprecation by function		
Operating costs	\$ 564,858	\$ 456,022
Selling and marketing expenses	81,898	112,686
General and administration expenses	131,083	148,739
Research and development expenses	<u>37,890</u>	<u>33,247</u>
	<u>\$ 818,729</u>	<u>\$ 750,694</u>

	For the Year ended December 31	
	2017	2016
An analysis of amortization by function		
Operating costs	\$ 758	\$ 979
Selling and marketing expenses	1,031	1,073
General and administration expenses	9,063	9,389
Research and development expenses	4,202	4,319
	<u>\$ 15,054</u>	<u>\$ 15,760</u>

e. Employee benefits expense

	For the Year ended December 31	
	2017	2016
Post-employment benefits (Note 19)		
Defined contribution plans	\$ 200,488	\$ 153,073
Defined benefit plans	8	(35,435)
	<u>200,496</u>	<u>117,638</u>
Other employee benefits	<u>3,550,496</u>	<u>2,771,329</u>
Total employee benefits expense	<u>\$3,750,992</u>	<u>\$2,888,967</u>

An analysis of employee benefits expense by function		
Operating costs	\$1,934,279	\$1,274,218
Operating expenses	<u>1,816,713</u>	<u>1,614,749</u>
	<u>\$3,750,992</u>	<u>\$2,888,967</u>

(1) Employees' compensation and remuneration to directors and supervisors for 2016 and 2015

To be in compliance with the Company Act as amended in May 2015, the proposed amended Articles of Incorporation of the Company stipulate to distribute employees' compensation and remuneration to directors and supervisors at the rates no less than 2% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Company's board of directors on March 12, 2018 and February 24, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	2.0%	3.5%

Amount

For the Year Ended 2017		For the Year Ended 2016	
Cash	Stock	Cash	Stock

Employees' compensation	\$ 87,828	\$ -	\$ 88,849	\$ -
Remuneration to directors and supervisors	12,647	\$ -	14,028	\$ -

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.

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, 2016 and 2015.

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.

f. Gain or loss on foreign currency exchange

	For the Year ended December 31	
	2016	2015
Foreign exchange gains	\$ 890,951	\$ 260,031
Foreign exchange losses	(616,897)	(608,405)
	<u>\$ 274,054</u>	<u>(\$ 348,374)</u>

22. 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 Year Ended December 31	
	2017	2016
In respect of the current year	\$ 968,813	\$ 770,577
Adjustments for prior years	<u>3,031</u>	<u>(678)</u>
	<u>971,844</u>	<u>769,899</u>
<u>Deferred tax</u>		
In respect of the current year	<u>85,545</u>	<u>50,060</u>
Income tax expense recognized in profit or loss	<u>\$ 1,057,389</u>	<u>\$ 819,959</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year ended December 31	
	2017	2016
Profit before tax from continuing operations	<u>\$ 4,357,170</u>	<u>\$ 2,848,009</u>

	For the Year ended December 31	
	2017	2016
Income tax expense calculated at the statutory rate	\$ 1,106,671	\$ 859,131
Nondeductible expenses in determining taxable income	11,893	400
Tax-exempt income	(54,578)	(93,359)
Land value increment tax	-	38,106
Unrecognized deductible temporary differences	6,468	33,269
R&D with tax credits	(15,130)	(14,894)
Disable persons with tax credits	(966)	(960)
Adjustments for prior years' tax	3,031	(678)
Others	-	(1,056)
Income tax expense recognized in profit or loss	<u>\$ 1,057,389</u>	<u>\$ 819,959</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in ROC, while the applicable tax rate used by subsidiaries in China is 25% and 15%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In January 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by \$38,498 thousand and \$662 thousand, respectively, in 2018.

b. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Others	Closing Balance
Deferred Tax Assets					
Temporary differences					
Allowance for loss on inventories	\$ 8,179	(\$ 341)	(\$ 49)	\$ -	\$ 7,789
Allowance for impaired receivables	27,922	(2,290)	(308)	-	25,324
Unrealized gross profit	51,106	50,874	376	-	102,356
Others	6,564	(7,596)	1,034	-	2
	93,771	40,647	1,053	-	135,471
Loss carryforwards	179,116	56,915	(1,453)	-	234,578
	<u>\$ 272,887</u>	<u>\$ 97,562</u>	<u>(\$ 400)</u>	<u>\$ -</u>	<u>\$ 370,049</u>
Deferred tax liabilities					
Temporary differences					
Unrealized exchange gains	\$ 1,386	\$ 2,377	(\$ 9)	\$ -	\$ 3,754
Defined benefit obligation	1,184	-	-	-	1,184
Withholding tax	351,666	180,730	(3,345)	(163,239)	365,812
	<u>\$ 354,236</u>	<u>\$ 183,107</u>	<u>(\$ 3,354)</u>	<u>(\$ 163,239)</u>	<u>\$ 370,750</u>

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Exchange Differences	Others	Closing Balance
<u>Deferred Tax Assets</u>					
Temporary differences					
Allowance for loss on inventories	\$ 4,659	\$ 4,152	(\$ 632)	\$ -	\$ 8,179
Allowance for impaired receivables	26,657	3,490	(2,225)	-	27,922
Defined benefit obligation	2,485	(2,430)	(55)	-	-
Unrealized gross profit	48,022	6,943	(3,859)	-	51,106
Others	-	6,561	3	-	6,564
	81,823	18,716	(6,768)	-	93,771
Loss carryforwards	107,118	80,839	(8,841)	-	179,116
	<u>\$ 188,941</u>	<u>\$ 99,555</u>	<u>(\$ 15,609)</u>	<u>\$ -</u>	<u>\$ 272,887</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized exchange gains	\$ 252	\$ 1,139	(\$ 5)	\$ -	\$ 1,386
Defined benefit obligation	-	1,134	50	-	1,184
Withholding tax	296,300	147,342	(24,089)	(67,887)	351,666
	<u>\$ 296,552</u>	<u>\$ 149,615</u>	<u>(\$ 24,044)</u>	<u>(\$ 67,887)</u>	<u>\$ 354,236</u>

- c. Deductible temporary differences for which no deferred tax assets have been recognized in the consolidated balance sheets

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Loss carryforwards		
Expire in 2026	<u>\$195,701</u>	<u>\$195,701</u>

- d. Information about unused loss carry-forward and tax-exemption

Loss carryforwards as of December 31, 2017 comprised of :

<u>Unused Amount</u>	<u>Expiry Year</u>
\$ 50,837	2023
174,184	2024
278,003	2025
593,657	2026
370,255	2027
68,251	-
<u>\$ 1,535,187</u>	

- e. 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.

23. EARNINGS PER SHARE

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

Unit: NT\$ Per Share

Net profit for the period

	For the year ended December 31	
	2017	2016
Profit for the period attributable to owners of the Company	<u>\$3,300,103</u>	<u>\$1,918,675</u>
Earnings used in the computation of basic earnings per share	3,300,103	1,918,675
Effect of potentially dilutive ordinary shares:	<u>-</u>	<u>-</u>
Earnings used in the computation of diluted earnings per share	<u>\$3,300,103</u>	<u>\$1,918,675</u>

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

	For the year ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings per share	182,775	179,025
Effect of potentially dilutive ordinary shares:		
Bonus issue to employees or employee remuneration	<u>259</u>	<u>341</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>183,034</u>	<u>179,366</u>

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.

24. SHARE-BASED PAYMENT ARRANGEMENTS

The Company issued new ordinary shares in July, 2017. The Company reserved 1,000 thousand of the newly issued shares for employees 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
	<u>-</u>	

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%

25. GOVERNMENT GRANTS

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

26. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On April 18, 2016, the Group subscribed for additional new shares of Airtac Industrial Co., Ltd. at a percentage different from its existing ownership percentage, increasing its continuing interest from 53.66% to 69.44%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

	Airtac Industrial Co., Ltd.
Cash consideration paid	<u>\$ 101,623</u>
The proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	(52,219)
Reattribution of other equity from non-controlling interests	

— Exchange differences arising on the translation of the financial statements of foreign operations	(6,052)
— Remeasurement on defined benefit plans	<u>1,511</u>
Differences arising from equity transaction	<u>\$ 44,863</u>

27. 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 years ended December 31, 2016 and 2015.

- a. The Group acquired property, plant and equipment with an aggregate fair value of \$3,932,985 thousand during the period of the years ended December 31, 2017. Other trade payables increase \$116,412 thousand in total. The cash paid of the Group for acquisition of property, plant and equipment was \$3,816,573 thousand (refer to Note 13).
- b. The Group acquired property, plant and equipment with an aggregate fair value of \$1,544,838 thousand during the period of the years ended December 31, 2016. Other trade payables decrease \$619 thousand in total. The cash paid of the Group for acquisition of property, plant and equipment was \$1,545,529 thousand (refer to Note 13).
- c. 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, which increase \$3,070,090 thousand of the equity. The Company reserved 1,000 thousand of the newly issued shares for employees to subscribe. The transaction costs attributed to issue of the new ordinary shares are \$6,878 thousand. The Company recognized \$70,090 thousands in capital surplus-employee share options. The Company received \$2,993,122 thousand cash in total for issuing new ordinary shares.

28. 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:

	December 31, 2017	December 31, 2016
Not later than one year	\$ 40,434	\$ 39,337
Later than one year and not later than five years	43,986	49,404
Later than five years	<u>264</u>	<u>264</u>
	<u>\$ 84,954</u>	<u>\$ 89,005</u>

29. 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.

30. 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 that are measured at fair value on a recurring basis
1) Fair value hierarchy

December 31, 2017: NA

December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Structured deposits	\$ <u>-</u>	\$ <u>1,852,023</u>	\$ <u>-</u>	\$ <u>1,852,023</u>

There were no transfers between the level 1 and level 2 during the period of the years ended December 31, 2017 and 2016.

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

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Structures deposits	Discounted cash flow. Future cash flows are estimated based on yield rate 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

	December 31, 2017	December 31, 2016
<u>Financial assets</u>		
Financial assets at FVTPL		
Designated as at FVTPL	\$ -	\$ 1,852,023
Loans and receivables (Note 1)	7,497,114	5,646,756
<u>Financial liabilities</u>		
Measured at amortized cost (Note 2)	11,390,728	10,995,383

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 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 Year ended December 31	
	2017	2016
Profit and losses	\$ 29,192	\$ 49,211

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:

	December 31, 2017	December 31, 2016
Fair value risk		
-Financial assets	\$ 551,582	\$ 687,586
-Financial liabilities	10,041,834	10,283,885

	December 31, 2017	December 31, 2016
Cash flow risk		
-Financial assets	1,346,795	1,146,017
-Financial liabilities	-	-

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 years ended December 31, 2016 and 2015 would decrease or increase by \$13,468 thousand and \$11,071 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits.

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 years ended December 31, 2017 and 2016.

The Group's concentration of credit risk by geographical locations was mainly in Mainland China, which accounted for 90.80% and 90.76% of the total trade receivables as of December 31, 2017 and 2016, 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 December 31, 2017 and 2016, the Group had available unutilized short-term bank loan facilities set out in (2) below.

(1) Liquidity and interest rate risk tables

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.

December 31, 2017

	<u>Shorter than 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>	<u>Longer than 5 years</u>
Non-derivative financial liabilities				
Non-interest bearing	\$1,820,677	\$ 221,118	\$ -	\$ -
Fixed interest rate liabilities	<u>7,571,612</u>	<u>917,195</u>	<u>1,615,271</u>	<u>-</u>
	<u>\$9,392,289</u>	<u>\$1,138,313</u>	<u>\$1,615,271</u>	<u>\$ -</u>

December 31, 2016

	<u>Shorter than 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>	<u>Longer than 5 years</u>
Non-derivative financial liabilities				
Non-interest bearing	\$1,168,150	\$ 104,378	\$ -	\$ -
Fixed interest rate liabilities	<u>7,463,889</u>	<u>848,015</u>	<u>2,071,783</u>	<u>-</u>
	<u>\$8,632,038</u>	<u>\$ 952,394</u>	<u>\$2,071,783</u>	<u>\$ -</u>

(2) Financing facilities

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unsecured bank loans (re-examined annually)		
-Amounts used	\$ 8,004,455	\$ 7,811,568
-Amounts unused	<u>2,608,699</u>	<u>2,261,249</u>
	<u>\$10,613,154</u>	<u>\$10,072,817</u>
Secured bank loans		
-Amounts used	\$ 2,040,584	\$ 2,477,852

	December 31, 2017	December 31, 2016
-Amounts unused	<u>-</u>	<u>-</u>
	<u>\$ 2,040,584</u>	<u>\$ 2,477,852</u>

31. 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

<u>Name</u>	<u>Relation</u>
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 Year ended December 31	
	2017	2016
<u>Sales of goods</u>		
Other related parties (the responsible person of the party is the director of the Group)	<u>\$ 226</u>	<u>\$ 81</u>

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:

	December 31, 2017	December 31, 2016
<u>Trade Receivables</u>		
Other related parties (the responsible person of the party is the director of the Group)	<u>\$ -</u>	<u>\$ 2</u>

For the year ended of December 31, 2017 and 2016, no impairment losses was recognized for trade receivables from related parties.

(3) Compensation of key management personnel

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

	For the Year ended December 31	
	2017	2016
Short-term employee benefits	<u>\$ 129,435</u>	<u>\$154,889</u>

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.

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31, 2017	December 31, 2016
Pledge deposits (classified as debt investment with no active market)	\$ 6,067	\$ 8,801
Restricted bank deposits(classified as other financial assets)	11,255	-
Land	890,359	890,359
Buildings, net	<u>2,718,257</u>	<u>2,732,602</u>
	<u>\$ 3,625,938</u>	<u>\$ 3,631,762</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

	December 31, 2017	December 31, 2016
	<u>\$</u>	
Acquisition of property, plant and equipment	<u>2,605,340</u>	<u>\$986,202</u>

34. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign currency	Exchange rate	Carrying amount
<u>Financial assets</u>			
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)	<u>1,588,454</u>
			<u>\$ 2,405,478</u>
<u>Financial liabilities</u>			
Monetary items			

	Foreign currency	Exchange rate	Carrying amount
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
			<u>\$ 3,884,699</u>

December 31, 2016

	Foreign currency	Exchange rate	Carrying amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 112	32.03 (USD: NTD)	\$ 3,576
USD	24,332	6.94 (USD: RMB)	779,315
RMB	148,704	4.62 (RMB: NTD)	686,568
			<u>\$ 1,469,459</u>
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 57	32.03 (USD: NTD)	\$ 1,826
USD	178,036	6.94 (USD: RMB)	5,702,145
RMB	17,015	4.62 (RMB: NTD)	78,557
			<u>\$ 5,782,528</u>

For the year ended in December 31, 2017 and 2016, realized and unrealized net foreign exchange gains (losses) were \$274,054 thousand and (\$348,374) 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.

35. 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 (Table 4)
7. Purchases or sales with related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)

8. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 6)

9. Derivative transactions (Note 7)

10. Intercompany relationships and significant intercompany transactions (Table 8)

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 7)

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 8)

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.

35. 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 Year ended December 31		For the Year ended December 31	
	2017	2016	2017	2016
Pneumatic components				
-Direct sales	\$ 10,343,289	\$8,352,963	\$ 3,832,774	\$ 2,796,640
-Distributors	<u>3,374,616</u>	<u>2,268,655</u>	<u>1,250,537</u>	<u>759,559</u>
Total amounts of continuing operations	<u>\$13,717,905</u>	<u>\$10,621,618</u>	5,083,311	3,556,199
Share of profits of associates accounted for using the equity method			(4,102)	(7,737)
Loss on disposal of associates			(5,606)	-
Interest revenue			26,915	27,345
Loss on disposal of property, plant and equipment			(22,008)	516,392
Net exchange losses			274,054	(348,374)
Net gain arising on financial assets designated as at FVTPL			31,480	47,851
HQ admin. cost and directors' salaries			(858,446)	(756,572)
Finance costs			(168,428)	(141,881)
Impairment loss recognized on investment in subsidiaries			-	(45,214)
Profit before income tax from continuing operations			<u>\$4,357,170</u>	<u>\$2,848,009</u>

The segment revenues were accounted for the transactions with external customers. No inter-segment sales occurred for the years ended December 31, 2017 and 2016.

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

	December 31, 2017	December 31, 2016
<u>Segment assets</u>		
Pneumatic components		

	December 31, 2017	December 31, 2016
-Direct sales	\$21,498,422	\$17,776,112
-Distributors	<u>7,009,069</u>	<u>4,832,128</u>
Total segment total assets	28,507,491	22,608,240
Unallocated assets	<u>398,101</u>	<u>354,672</u>
Consolidated total assets	<u>\$28,905,592</u>	<u>\$22,962,912</u>

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 THE YEAR ENDED DECEMBER 31, 2017
(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 (Note 1)	Ending Balance (Note 1)	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			
00	Airtac International Group	ATC (Italia) S.R.L	Other receivables	Yes	EUR5,000 (NTD177,850)	EUR3,000 (NTD106,710)	EUR1,600 (NTD56,912)	-	Short-term financing needs	\$ -	Revolving fund	\$ -	-	-	\$6,380,848	\$6,380,848	Note 2
00	Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	Other receivables	Yes	USD30,000 (NTD 894,858)	USD20,000 (NTD 596,572)	USD 14,300 (NTD426,549)	2.69%~3.11%	Short-term financing needs		Revolving fund	-	-	-	6,380,848	6,380,848	Note 2
00	Airtac International Group	Airtac International (Singapore) Pte. Ltd.	Other receivables	Yes	USD13,000 (NTD387,772)	USD5,000 (NTD149,143)	USD5,000 (NTD149,143)	-	Short-term financing needs		Revolving fund	-	-	-	6,380,848	6,380,848	Note 2
00	Airtac International Group	Airtac Co., Ltd	Other receivables	Yes	USD10,000 (NTD298,286)	USD5,000 (NTD149,143)	RMB5,000 JPY258,069 (NTD91,033)	-	Short-term financing needs		Revolving fund	-	-	-	6,380,848	6,380,848	Note 2
00	Airtac International Group	Airtac Industrial (Malaysia) Sdn. Bhd.	Other receivables	Yes	USD3,000 (NTD 89,486)	USD1,000 (NTD 29,829)	USD620 (NTD18,494)	-	Short-term financing needs		Revolving fund	-	-	-	6,380,848	6,380,848	Note 2
1	Airtac Industrial Co. Ltd.	Airtac International Group Taiwan Branch	Other receivables	Yes	NTD127,000	NTD -	NTD -	-	Short-term financing needs		Revolving fund	-	-	-	14,824	14,824	Note 3

Note 1: Conversion to NTD used the spot exchange rate on December 31, 2017, that is, 1USD=29.8286, 1EUR=35.5700NTD, 1RMB=4.5650NTD, 1JPY=0.2643NTD.
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.
Note 3: According to Company’s Loans to Others Procedure, the limits on loans provided to other parties is 40% of Airtac Industrial Co. Ltd.’s net worth at the end of the period.

TABLE 2

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INFORMATION FOR INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2017

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		December 31, 2015			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2016 (Note1)	December 31, 2015 (Note1)	Shares	%	Carrying Amount			
Airtac International Group	Airtac Industrial (Hong Kong) Limited	Hong Kong	General investment	USD87,500 RMB222,000 (NTD3,623,433)	USD 87,500 RMB153,500 (NTD3,308,448)	121,155,302	100	\$16,444,722	\$3,434,427	\$3,434,427	2
	Airtac Trading (Hong Kong) Limited	Hong Kong	General investment	USD - (NTD -)	USD- (NTD -)	7,000,000	100	2,903	(211)	(211)	2
	Instant Reach International Limited	British Virgin Island	General investment	USD 2,283 EUR 1,000 RMB 17,500 (NTD183,557)	USD 2,283 EUR 1,000 RMB 17,500 (NTD183,557)	1	100	128,298	10,644	10,644	2
	Airtac Holding (Singapore) Pte. Ltd.	Singapore	General investment	USD15,000 (NTD447,429)	USD14,000 (NTD417,600)	15,000,000	100	317,156	17,500	17,500	2
	AMA Tech Corp.	Tucheng District, New Taipei City	Metal manufacturing	NTD -	NTD 186,400	-	-	-	(20,508)	(9,708)	4
Instant Reach International Limited	Airtac Industrial Co., Ltd	Sanxia District, New Taipei City	Processing, sales and import/export of machines and components	NTD54,581	NTD54,581	69,435	69.44	26,760	(1,458)	-	
	ATC (Italia) S.R.L	Via Mauro Macchi n.27, 20124 Milano (MI)	Production and sales of pneumatic and hydraulic control components	EUR4,000 (NTD142,280)	EUR4,000 (NTD142,280)	4,000,000	100	75,469	14,880	-	
Airtac Holding (Singapore) Pte. Ltd.	Airtac International (Singapore) Pte. Ltd.	Singapore	Production and sales of pneumatic control components and accessories	USD 12,500 (NTD372,858)	USD12,500 (NTD372,858)	12,500,000	100	313,090	27,559	-	
	Airtac CO., Ltd.	Japan	Production and sales of pneumatic control components and accessories	JPY98,000 (NTD25,901)	JPY98,000 (NTD25,901)	2,000	100	(31,378)	(8,680)	-	
	Airtac USA Corporation	USA	Production and sales of pneumatic control components and accessories	USD1,000 (NTD29,829)	USD- (NTD-)	1,500	100	26,703	(3,217)	-	
Airtac International (Singapore) Pte. Ltd.	Airtac Industrial (Malaysia) Sdn. Bhd.	Malaysia	Production and sales of pneumatic control components and accessories	MYR1,000 (NTD7,072)	MYR1,000 (NTD7,072)	1,000,000	100	(6,801)	3,703	-	
	Airtac Industrial Co. Ltd.	Thailand	Production and sales of pneumatic control components and accessories	THB 100,000 (NTD 91,710)	THB 100,000 (NTD 91,710)	1,000,000	100	81,842	1,345	-	

Note1 : Conversion to NTD used the spot exchange rate on December 31, 2017, that is, 1 USD=29.8286 NTD, 1 EUR=35.5700 NTD, 1 JPY=0.2643 NTD, 1 RMB=4.5650 NTD, 1 MYR=7.0720 NTD, 1THB=0.9171NTD.

Note2 : The amount was eliminated upon consolidation.

Note3 : Please refer to Table 7 for information on investment in mainland China.

Note4 : In July 2017, the Group sold 20% of its interest in AMA Tech Corp. to a third party. The Company recognized investment loss and loss on disposal of investment \$4,102 thousand and \$5,606 thousand, respectively.

TABLE 3

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance (Note 1)		Acquisition (Note 1)		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
Ningbo Airtac Automatic Industrial Co., Ltd	Structured deposits	Financial assets at fair value through profit or loss - current	-	-	-	\$ 616,275 (RMB 135,000)	-	\$ 342,375 (RMB 75,000)	-	\$ 964,672 (RMB 211,319)	\$ 958,650 (RMB 210,000)	\$ 6,022 (RMB 1,319)	-	\$ -
Guangdong Airtac Automatic Industrial Co., Ltd	Structured deposits	Financial assets at fair value through profit or loss - current	-	-	-	\$ 616,275 (RMB 135,000)	-	\$ 237,380 (RMB 52,000)	-	\$ 859,098 (RMB 188,192)	\$ 853,655 (RMB 187,000)	\$ 5,443 (RMB 1,192)	-	-
Airtac (China) Co., Ltd.	Structured deposits	Financial assets at fair value through profit or loss - current	-	-	-	\$ 593,450 (RMB 130,000)	-	\$ 388,025 (RMB 85,000)	-	\$ 987,372 (RMB 216,292)	\$ 981,475 (RMB 215,000)	\$ 5,879 (RMB 1,292)	-	-

Note 1: Conversion to NTD used the spot exchange rate on December 31, 2017, that is 1 RMB= 4.5650 NTD.

TABLE 4

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 YEAR ENDED DECEMBER 31, 2017**

(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			
Airtac International Group	Plant	2017.02.08-2017.12.31	\$ 728,609	On progress of completion	Self-building	-	-	-	-	\$-	N/A	Manufacturing, research and development purpose	-
Ningbo Airtac Automatic Industrial Co., Ltd	Plant	2016.10.15-2017.12.31	\$683,757	On progress of completion	Self-building	-	-	-	-	\$-	N/A	Manufacturing purpose	-
	Prepayment for lease	2016.11.30-2017.01.11	\$351,248	Fully paid up	Fenghua Bureau of Land and Resources	-	-	-	-	\$-	N/A	Manufacturing purpose	-

TABLE 5

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 YEAR ENDED DECEMBER 31, 2017

(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	\$6,914,835	88	T/T 120 days	\$-	-	\$1,774,834	82	
Ningbo Airtac Automatic Industrial Co., Ltd	Airtac International Group	The parent company	Sales	332,618	4	T/T 120 days	-	-	112,034	5	
Ningbo Airtac Automatic Industrial Co., Ltd	Guangdong Airtac Automatic Industrial Co., Ltd	The same parent company	Sales	279,815	4	T/T 120 days	-	-	176,880	8	
Ningbo Airtac Automatic Industrial Co., Ltd	Airtac International (Singapore) Pte. Ltd.	The same parent company	Sales	149,099	2	T/T 120 days	-	-	49,650	2	
Ningbo Airtac Automatic Industrial Co., Ltd	ATC (Italia) S.R.L	The same parent company	Sales	124,398	2	T/T 120 days	-	-	45,129	2	
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	Sales	1,483,450	63	T/T 120 days	-	-	545,881	51	
Guangdong Airtac Automatic Industrial Co., Ltd	Guangdong Airtac Machinery Equipment Co., Ltd.	The same parent company	Sales	424,876	18	T/T 120 days	-	-	282,727	26	
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac International Group	The parent company	Sales	110,976	5	T/T 120 days	-	-	16,264	2	
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac (Jiangsu) Automatic Co., Ltd	The same parent company	Sales	178,864	8	T/T 120 days	-	-	165,573	15	

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	
Airtac International Group	Airtac (China) Co., Ltd.	Subsidiary	Sales	508,226	24	T/T 120 days	-	-	257,937	23	
Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	Subsidiary	Sales	776,599	36	T/T 120 days	-	-	445,874	39	
Airtac International Group	Guangdong Airtac Automatic Industrial Co., Ltd	Subsidiary	Sales	286,599	13	T/T 120 days	-	-	236,600	21	
Airtac (China) Co., Ltd.	Airtac (Jiangsu) Automatic Co., Ltd	The same parent company	Sales	2,423,712	22	T/T 120 days	-	-	317,675	12	
Airtac (China) Co., Ltd.	Guangdong Airtac Machinery Equipment Co., Ltd.	Subsidiary	Sales	1,809,316	16	T/T 120 days	-	-	816,766	31	

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

TABLE 6

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2017

(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	Guangdong Airtac Automatic Industrial Co., Ltd	The same parent company	\$ 176,880	2	\$ -	-	\$98,787	\$-
Ningbo Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	1,774,834	5	-	-	1,686,964	-
Ningbo Airtac Automatic Industrial Co., Ltd	Airtac International Group	The parent company	112,034	4	-	-	65,887	-
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac (China) Co., Ltd.	The same parent company	545,881	3	-	-	201,138	-
Guangdong Airtac Automatic Industrial Co., Ltd	Guangdong Airtac Machinery Equipment Co., Ltd.	The same parent company	282,727	2	-	-	71,196	-
Guangdong Airtac Automatic Industrial Co., Ltd	Airtac (Jiangsu) Automatic Co., Ltd	The same parent company	165,573	1	-	-	77,327	-
Airtac (China) Co., Ltd.	Airtac (Jiangsu) Automatic Co., Ltd	The same parent company	317,675	6	-	-	317,675	-
Airtac (China) Co., Ltd.	Guangdong Airtac Machinery Equipment Co., Ltd.	Subsidiary	816,766	2	-	-	476,111	-
Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	Subsidiary	445,874	3	-	-	-	-
Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	Subsidiary	426,549	Note 1	-	-	-	-
Airtac International Group	Guangdong Airtac Automatic Industrial Co., Ltd	Subsidiary	236,600	2	-	-	-	-
Airtac International Group	Airtac (China) Co., Ltd.	Subsidiary	257,937	3	-	-	-	-
Airtac International Group	Airtac International (Singapore) Pte. Ltd.	Subsidiary	149,143	Note 1	-	-	-	-

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

TABLE 7

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INFORMATION FOR INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017

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

Investee Company Name	Main Businesses and Products	Paid-in Capital (Note 2)	Method of Investment	Accumulated Investment Outflow from Taiwan as of January 1, 2017	Investment Flow for the Period		Accumulated Investment Outflow from Taiwan as of December 31, 2017	Net income of Investee Company	% of Ownership – Direct or Indirect investment	Investment Gain (Loss) Recognized for the Period (Note 2)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017	Note
					Outflow	Inflow							
Ningbo Airtac Automatic Industrial Co., Ltd	Production of pneumatic control components and auxiliary components	USD52,000 RMB135,000 (NTD2,167,362)	N/A	N/A	\$ -	\$ -	N/A	\$2,017,647	100	\$1,896,178	\$9,401,610	N/A	
Guangdong Airtac Automatic Industrial Co., Ltd	Production of pneumatic control components and auxiliary components	USD6,000 (NTD178,972)	N/A	N/A	-	-	N/A	594,088	100	543,622	2,665,910	N/A	
Airtac (China) Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD18,000 RMB126,000 (NTD1,112,105)	N/A	N/A	-	-	N/A	977,697	100	906,330	4,062,781	N/A	
Airtac (Jiangsu) Automatic Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	USD 1,500 RMB 23,000 (NTD 149,738)	N/A	N/A	-	-	N/A	272,326	100	272,326	634,879	N/A	
Guangdong Airtac Machinery Equipment Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	RMB 10,000 (NTD 45,650)	N/A	N/A	-	-	N/A	210,869	100	210,869	259,349	N/A	
Airtac (Tianjin) Technology Co., Ltd.	Wholesale and agency of pneumatic components, tools and equipment, and related support services	RMB 10,000 (NTD 45,650)	N/A	N/A	-	-	N/A	5,254	100	5,254	50,919	N/A	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	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 December 31, 2017, that is, 1 USD=29.8286 NTD, 1 RMB=4.5650 NTD.

TABLE 8

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

FOR THE YEARS ENDED DECEMBER 31, 2017

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

No.	Company Name	Counter Party	Nature of Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Sales or Assets
0	Airtac International Group	Ningbo Airtac Automatic Industrial Co., Ltd	1	Other receivable	\$426,549	General terms and conditions	1%
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Other receivable	16,860	General terms and conditions	-
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Interest revenue	12,051	General terms and conditions	-
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Trade receivables	445,874	General terms and conditions	2%
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Sales revenue	776,599	General terms and conditions	6%
		Ningbo Airtac Automatic Industrial Co., Ltd	1	Sell property, plant and equipment	20,900	General terms and conditions	-
		ATC (Italia) S.R.L	1	Other receivable	56,912	General terms and conditions	-
		Airtac Industrial (Malaysia) Sdn. Bhd.	1	Trade receivables	34,871	General terms and conditions	-
		Airtac Industrial (Malaysia) Sdn. Bhd.	1	Other receivable	18,494	General terms and conditions	-
		Airtac Industrial (Malaysia) Sdn. Bhd.	1	Sales revenue	42,006	General terms and conditions	-
		Airtac Co., Ltd.	1	Other receivable	91,033	General terms and conditions	-
		Airtac International (Singapore) Pte. Ltd.	1	Other receivable	149,143	General terms and conditions	1%
		Airtac Industrial Co., Ltd	1	Sales revenue	60,887	General terms and conditions	-
		Airtac Industrial Co., Ltd	1	Trade receivables	29,990	General terms and conditions	-
		Airtac (China) Co., Ltd	1	Trade receivables	257,937	General terms and conditions	1%
		Airtac (China) Co., Ltd	1	Sales revenue	508,226	General terms and conditions	4%
		Guangdong Airtac Automatic Industrial Co., Ltd	1	Sales revenue	286,599	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
1	Ningbo Airtac Automatic Industrial Co.,Ltd	Guangdong Airtac Automatic Industrial Co., Ltd	1	Trade receivables	236,600	General terms and conditions	1%
		Airtac International Group	2	Trade receivables	112,034	General terms and conditions	-
		Airtac International Group	2	Sales revenue	332,618	General terms and conditions	2%
		Airtac (China) Co., Ltd	3	Trade receivables	1,774,834	General terms and conditions	6%
		Airtac (China) Co., Ltd	3	Sales revenue	6,914,835	General terms and conditions	50%
		Guangdong Airtac Automatic Industrial Co., Ltd	3	Sales revenue	279,815	General terms and conditions	2%
		Guangdong Airtac Automatic Industrial Co., Ltd	3	Trade receivables	176,880	General terms and conditions	1%
		ATC (Italia) S.R.L	3	Sales revenue	124,398	General terms and conditions	1%
1	Ningbo Airtac Automatic Industrial Co., Ltd	ATC (Italia) S.R.L	3	Trade receivables	45,129	General terms and conditions	-
		Airtac International (Singapore) Pte. Ltd.	3	Trade receivables	49,650	General terms and conditions	-
		Airtac International (Singapore) Pte. Ltd.	3	Sales revenue	149,099	General terms and conditions	1%
		Airtac Co., Ltd.	3	Sales revenue	22,417	General terms and conditions	-
2	Guangdong Airtac Automatic Industrial Co., Ltd	Ningbo Airtac Automatic Industrial Co., Ltd	3	Sales revenue	40,128	General terms and conditions	-
		Ningbo Airtac Automatic Industrial Co., Ltd	3	Trade receivables	19,507	General terms and conditions	-
		Airtac (China) Co., Ltd	3	Trade receivables	545,881	General terms and conditions	2%
		Airtac (China) Co., Ltd	3	Sales revenue	1,483,450	General terms and conditions	11%
		Airtac International Group	2	Sales revenue	110,976	General terms and conditions	-
		Airtac International Group	2	Trade receivables	16,264	General terms and conditions	-
		ATC (Italia) S.R.L	3	Sales revenue	32,926	General terms and conditions	-
		ATC (Italia) S.R.L	3	Trade receivables	15,113	General terms and conditions	-
		Airtac International (Singapore) Pte.Ltd.	3	Trade receivables	29,797	General terms and conditions	-

No.	Company Name	Counter Party	Nature of Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Consolidated Sales or Assets
3	Airtac (China) Co., Ltd	Airtac International (Singapore) Pte.Ltd.	3	Sales revenue	80,996	General terms and conditions	1%
		Guangdong Airtac Machinery Equipment Co., Ltd.	3	Sales revenue	424,876	General terms and conditions	3%
		Guangdong Airtac Machinery Equipment Co., Ltd.	3	Trade receivables	282,727	General terms and conditions	1%
		Airtac (Jiangsu) Automatic Co., Ltd.	3	Sales revenue	178,864	General terms and conditions	1%
		Airtac (Jiangsu) Automatic Co., Ltd.	3	Trade receivables	165,573	General terms and conditions	1%
		Airtac (Jiangsu) Automatic Co., Ltd.	3	Trade receivables	317,675	General terms and conditions	1%
		Airtac (Jiangsu) Automatic Co., Ltd.	3	Sales revenue	2,423,712	General terms and conditions	18%
		Guangdong Airtac Machinery Equipment Co., Ltd.	3	Trade receivables	816,716	General terms and conditions	3%
		Guangdong Airtac Machinery Equipment Co., Ltd.	3	Sales revenue	1,809,316	General terms and conditions	13%
3	Airtac (China) Co., Ltd	Ningbo Airtac Automatic Industrial Co., Ltd	3	Sales revenue	13,406	General terms and conditions	-
		Ningbo Airtac Automatic Industrial Co., Ltd	3	Trade receivables	10,995	General terms and conditions	-
		Airtac (Tianjin) Technology Co., Ltd.	3	Trade receivables	56,929	General terms and conditions	-
		Airtac (Tianjin) Technology Co., Ltd.	3	Sales revenue	77,161	General terms and conditions	1%
4	Airtac International Group (Singapore) Pte.Ltd.	Ningbo Airtac Automatic Industrial Co., Ltd	3	Sales revenue	12,434	General terms and conditions	-
5	Airtac Co., Ltd.	Ningbo Airtac Automatic Industrial Co., Ltd	3	Sales revenue	37,070	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.