

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2017 AND 2016

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders of Formosa Taffeta Co., Ltd.

Opinion

We have audited the accompanying balance sheets of Formosa Taffeta Co., Ltd. (the “Company”) as at December 31, 2017 and 2016, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis for opinion

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

Key audit matters

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

Valuation of allowance for uncollectible accounts

Description

Refer to Note 4(9) on financial assets impairment, for accounting policy on allowance for uncollectible accounts, Note 5(2) for accounting estimates and assumption uncertainty in relation to accounts receivable, and Note 6(4) for details of allowance for uncollectible accounts. As of December 31, 2017, the Company's accounts receivable and allowance for uncollectible accounts amounted to NT\$1,985,410 thousand and NT\$37,064 thousand, respectively.

The Company assesses the collectibility of accounts receivable based on historical experience, known reason or existing objective evidence. For those accounts which are considered uncollectible, the Company recognizes impairment with a credit to accounts receivable. The Company examines the reasonableness periodically. As the estimation of allowance for uncollectible accounts is subject to management's judgement, and given the significance of accounts receivable and allowance for uncollectible accounts to the financial statements, we consider the valuation of allowance for uncollectible accounts a key audit matter.

How our audit addressed the matter

Our procedures in relation to management's assessment of the allowance for uncollectible accounts included:

- A. Assessing the reasonableness of policies and procedures in determining the allowance for uncollectible accounts, including the reasonableness of classification of customer's credit quality and aging analysis;
- B. Assessing whether the provision policy on allowance for uncollectible accounts has been consistently applied in the comparative periods of financial statements;

- C. Assessing the adequacy of allowance for uncollectible accounts estimated by management; and
- D. Testing collections after the balance sheet date to check the adequacy of allowance for uncollectible accounts.

Valuation of inventory

Description

Refer to Note 4(11) for accounting policy on inventory valuation, Note 5(2) for accounting estimates and assumption uncertainty in relation to inventory valuation, and Note 6(5) for description of allowance for inventory valuation losses. As of December 31, 2017, the Company's inventory and allowance for market value decline and obsolete and slow-moving inventories amounted to NT\$5,207,447 thousand and NT\$243,878 thousand, respectively.

The Company is primarily engaged in fiber dyeing and finishing, manufacturing and sales of curtains. As the textile manufacturing market is competitive, there is higher risk of incurring loss on inventory valuation. The Company recognizes inventories at the lower of cost and net realizable value, and the net realizable value is calculated based on the average price less estimated selling expenses. Since the calculation of net realizable value involves subjective judgement and uncertainty and the inventory is material to the financial statements, we consider the valuation of inventory a key audit matter.

How our audit addressed the matter

Our procedures in relation to management's assessment of the allowance for inventory valuation losses included:

- A. Assessing the reasonableness of policies and procedures on allowance for inventory valuation loss, including the reasonableness of classification of inventory in determining the net realizable value;
- B. Understanding the inventory management procedures, examining and participating in annual physical count and assessing the effectiveness of inventory management and inventory classification determined by management; and
- C. Checking the method in calculating the net realizable value of inventory and assessing the reasonableness of allowance for valuation loss.

Other matter - audits of the other independent accountants

We did not audit the financial statements of certain investments accounted for under the equity method. The balance of these investments accounted for under the equity method amounted to NT\$7,133,622 thousand and NT\$ 7,490,647, constituting 8% and 9% of total assets as of December 31, 2017 and 2016, respectively, and comprehensive income was NT\$412,764 thousand and NT\$665,984 thousand, constituting 8% and 4% of total comprehensive income for the years then ended, respectively. The financial statements of these investees were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the financial statements relative to these investees is based solely on the audit reports of the other independent accountants.

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the

basis of these financial statements.

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

- A. Identify and assess the risks of material misstatement of the 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.
- B. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- C. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- D. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- E. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- F. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Chou, Chien-Hung

Juanlu, Man-Yu

For and on behalf of PricewaterhouseCoopers, Taiwan

March 16, 2018

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

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

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2017		December 31, 2016			
			AMOUNT	%	AMOUNT	%		
Current assets								
1100	Cash and cash equivalents	6(1)	\$	851,569	1	\$	1,023,947	1
1110	Financial assets at fair value	6(2)						
	through profit or loss - current			398	-		-	-
1125	Available-for-sale financial assets	6(3)						
	- current			1,911,496	2		1,611,938	2
1150	Notes receivable, net			114,555	-		106,411	-
1160	Notes receivable - related parties	7		13,007	-		11,643	-
1170	Accounts receivable, net	6(4)		1,948,346	3		1,950,719	2
1180	Accounts receivable - related parties	7						
				194,371	-		195,024	-
1200	Other receivables	7		415,375	1		372,699	1
130X	Inventory	6(5)		4,963,569	6		4,364,350	5
1410	Prepayments			149,485	-		468,176	1
1460	Non-current assets held for sale - net	6(9)		-	-		64,509	-
1470	Other current assets			188,207	-		177,927	-
11XX	Total current assets			10,750,378	13		10,347,343	12
Non-current assets								
1523	Available-for-sale financial assets	6(3) and 7						
	- non-current			43,363,486	51		41,654,803	50
1543	Financial assets carried at cost - non-current	6(6) and 7		266,009	-		91,493	-
1550	Investments accounted for under equity method	6(7)		22,905,965	27		22,438,793	27
1600	Property, plant and equipment	6(8) and 7		7,432,389	9		7,614,649	9
1760	Investment property - net	7		498,499	-		523,340	1
1840	Deferred income tax assets	6(25)		124,629	-		243,834	1
1900	Other non-current assets			162,805	-		103,307	-
15XX	Total non-current assets			74,753,782	87		72,670,219	88
1XXX	Total assets		\$	85,504,160	100	\$	83,017,562	100

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FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(10)	\$ 7,386	-	\$ 20,162	-
2110	Short-term notes and bills payable	6(11)	1,299,806	2	999,827	1
2120	Financial liabilities at fair value through profit or loss - current	6(12)	-	-	-	-
2150	Notes payable		135,455	-	161,324	-
2160	Notes payable - related parties	7	239,553	-	129,706	-
2170	Accounts payable		684,049	1	864,941	1
2180	Accounts payable - related parties	7	1,062,882	1	1,114,759	2
2200	Other payables	7	837,873	1	870,750	1
2230	Current income tax liabilities	6(25)	51,445	-	-	-
2300	Other current liabilities		90,457	-	79,182	-
21XX	Total current liabilities		4,408,906	5	4,240,651	5
Non-current liabilities						
2540	Long-term borrowings	6(13)	10,800,000	13	11,100,000	14
2570	Deferred income tax liabilities	6(25)	170,157	-	162,434	-
2600	Other non-current liabilities	6(14)	745,702	1	766,327	1
25XX	Total non-current liabilities		11,715,859	14	12,028,761	15
2XXX	Total liabilities		16,124,765	19	16,269,412	20
Equity						
Share capital		6(15)				
3110	Share capital - common stock		16,846,646	20	16,846,646	20
Capital surplus		6(16)				
3200	Capital surplus		274,323	-	266,458	-
Retained earnings		6(17)				
3310	Legal reserve		7,139,607	8	6,791,478	8
3320	Special reserve		2,214,578	3	1,708,542	2
3350	Unappropriated retained earnings		5,398,225	6	4,830,100	6
Other equity interest		6(18)				
3400	Other equity interest		37,525,951	44	36,326,427	44
3500	Treasury stocks	6(15)	(19,935)	-	(21,501)	-
3XXX	Total equity		69,379,395	81	66,748,150	80
Commitments and contingent liabilities		9				
Subsequent event		11				
3X2X	Total liabilities and equity		\$ 85,504,160	100	\$ 83,017,562	100

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

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amount)

		Year ended December 31			
Items	Notes	2017		2016	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(19) and 7	\$ 25,713,839	100	\$ 24,595,183	100
5000 Operating costs	6(5)(22)(23) and 7	(23,215,460)	(90)	(21,821,589)	(89)
5900 Net operating margin		<u>2,498,379</u>	<u>10</u>	<u>2,773,594</u>	<u>11</u>
Operating expenses	6(22)(23) and 7				
6100 Selling expenses		(1,396,951)	(5)	(1,384,211)	(6)
6200 General and administrative expenses		(496,956)	(2)	(548,545)	(2)
6000 Total operating expenses		(1,893,907)	(7)	(1,932,756)	(8)
6900 Operating profit		<u>604,472</u>	<u>3</u>	<u>840,838</u>	<u>3</u>
Non-operating income and expenses					
7010 Other income	6(20) and 7	2,664,014	10	1,845,311	7
7020 Other gains and losses	6(6)(21) and 7	(168,551)	(1)	(231,772)	(1)
7050 Finance costs	6(24)	(117,088)	-	(115,565)	-
7070 Share of profit of associates and joint ventures accounted for using equity method, net	6(7)	<u>1,500,573</u>	<u>6</u>	<u>1,429,173</u>	<u>6</u>
7000 Total non-operating income and expenses		<u>3,878,948</u>	<u>15</u>	<u>2,927,147</u>	<u>12</u>
7900 Profit before income tax		<u>4,483,420</u>	<u>18</u>	<u>3,767,985</u>	<u>15</u>
7950 Income tax expense	6(25)	(203,549)	(1)	(286,700)	(1)
8200 Profit for the year		<u>\$ 4,279,871</u>	<u>17</u>	<u>\$ 3,481,285</u>	<u>14</u>
Other comprehensive (loss) income	6(18)				
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans		(\$ 330,584)	(1)	\$ 160,060	1
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Other comprehensive income, before tax, exchange differences on translation		(927,654)	(4)	(632,789)	(3)
8362 Other comprehensive income, before tax, available-for-sale financial assets	6(3)	<u>2,127,178</u>	<u>8</u>	<u>12,815,606</u>	<u>52</u>
8360 Components of other comprehensive income that will be reclassified to profit or loss		<u>1,199,524</u>	<u>4</u>	<u>12,182,817</u>	<u>49</u>
8300 Total other comprehensive income for the year		<u>\$ 868,940</u>	<u>3</u>	<u>\$ 12,342,877</u>	<u>50</u>
8500 Total comprehensive income for the year		<u>\$ 5,148,811</u>	<u>20</u>	<u>\$ 15,824,162</u>	<u>64</u>
		<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
9750 Basic earnings per share	6(26)	<u>\$ 2.66</u>	<u>\$ 2.54</u>	<u>\$ 2.24</u>	<u>\$ 2.07</u>
Assuming shares held by subsidiary are not deemed as treasury stock:					
Basic earnings per share		<u>\$ 2.66</u>	<u>\$ 2.54</u>	<u>\$ 2.24</u>	<u>\$ 2.07</u>

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

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

				Retained Earnings			Other Equity Interest			
							Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets		
	Notes	Share capital - common stock	Capital Surplus	Legal reserve	Special reserve	Unappropriated retained earnings			Treasury stocks	Total equity
Year ended December 31, 2016										
Balance at January 1, 2016		\$ 16,846,646	\$ 20,791	\$ 6,508,610	\$ 1,381,824	\$ 3,819,939	\$ 646,176	\$ 23,497,434	(\$ 22,285)	\$ 52,699,135
Appropriations of 2015 earnings (Note 1):	6(17)									
Legal reserve		-	-	282,868	-	(282,868)	-	-	-	-
Special reserve		-	-	-	326,718	(326,718)	-	-	-	-
Cash dividends		-	-	-	-	(2,021,598)	-	-	-	(2,021,598)
Profit for the year		-	-	-	-	3,481,285	-	-	-	3,481,285
Disposal of treasury stock	6(15)	-	1,434	-	-	-	-	-	784	2,218
Change in the net interest of associates recognized under the equity method	6(7)	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year	6(18)	-	244,233	-	-	-	-	-	-	244,233
		-	-	-	-	160,060	(632,789)	12,815,606	-	12,342,877
Balance at December 31, 2016		<u>\$ 16,846,646</u>	<u>\$ 266,458</u>	<u>\$ 6,791,478</u>	<u>\$ 1,708,542</u>	<u>\$ 4,830,100</u>	<u>\$ 13,387</u>	<u>\$ 36,313,040</u>	<u>(\$ 21,501)</u>	<u>\$ 66,748,150</u>
Year ended December 31, 2017										
Balance at January 1, 2017		\$ 16,846,646	\$ 266,458	\$ 6,791,478	\$ 1,708,542	\$ 4,830,100	\$ 13,387	\$ 36,313,040	(\$ 21,501)	\$ 66,748,150
Appropriations of 2016 earnings (Note 2):	6(17)									
Legal reserve		-	-	348,129	-	(348,129)	-	-	-	-
Special reserve		-	-	-	506,036	(506,036)	-	-	-	-
Cash dividends		-	-	-	-	(2,526,997)	-	-	-	(2,526,997)
Profit for the year		-	-	-	-	4,279,871	-	-	-	4,279,871
Disposal of treasury stock	6(15)	-	2,891	-	-	-	-	-	1,566	4,457
Change in the net interest of associates recognized under the equity method		-	33	-	-	-	-	-	-	33
Adjustment of cash dividends paid to consolidated subsidiaries		-	3,439	-	-	-	-	-	-	3,439
Expired cash dividends transferred to capital surplus		-	1,502	-	-	-	-	-	-	1,502
Other comprehensive income for the year	6(18)	-	-	-	-	(330,584)	(927,654)	2,127,178	-	868,940
Balance at December 31, 2017		<u>\$ 16,846,646</u>	<u>\$ 274,323</u>	<u>\$ 7,139,607</u>	<u>\$ 2,214,578</u>	<u>\$ 5,398,225</u>	<u>(\$ 914,267)</u>	<u>\$ 38,440,218</u>	<u>(\$ 19,935)</u>	<u>\$ 69,379,395</u>

Note 1:Directors' amd supervisors' remuneration amounting to \$3,048 and employees' bonus amounting to \$6,096 had been deducted from the Statement of Comprehensive Income in 2016.

Note 2:Directors' amd supervisors' remuneration amounting to \$3,779 and employees' bonus amounting to \$7,559 had been deducted from the Statement of Comprehensive Income in 2017.

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

FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	For the years ended December 31,	
		2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 4,483,420	\$ 3,767,985
Adjustments			
Adjustments to reconcile profit (loss)			
Reversal of impairment of receivable	6(4)	(1,995)	(3,152)
Depreciation (including depreciation on investment property)	6(8)(22) and 7	804,763	830,144
Interest expense	6(24)	117,088	115,565
Impairment loss	6(6)(21)	-	138,044
Interest income	6(20)	(1,883)	(1,757)
Dividend income	6(20)	(2,310,238)	(1,568,757)
Loss on disposal of available-for-sale financial assets	6(21)	-	7,294
Gain on valuation of financial assets	6(2)(21)	(398)	-
Gain on valuation of financial liabilities	6(12)(21)	-	(277)
Receipt of cash dividends from investment accounted for under the equity method		898,499	865,788
Share of profit of subsidiaries and associates accounted for under the equity method	6(7)	(1,500,573)	(1,429,173)
Gain on disposal and scrap of property, plant and equipment	6(21) and 7	(46,693)	(126,300)
Unrealized gain on disposal and scrap of property, plant and equipment, net	6(21) and 7	1,078	102,982
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		(8,144)	(41,436)
Notes receivable - related parties		(1,364)	(6,407)
Accounts receivable, net		4,368	131,386
Accounts receivable - related parties		653	(5,314)
Other receivables		(67,673)	(197,141)
Inventories		(599,219)	(100,361)
Prepayments		318,583	243,450
Other current assets		(8,539)	(1,167)
Changes in operating liabilities			
Notes payable		(25,869)	(9,063)
Notes payable - related parties		109,847	(10,676)
Accounts payable		(180,892)	(40,062)
Accounts payable - related parties		(51,877)	146,835
Other payables		(31,210)	(25,768)
Other current liabilities		11,275	(958)
Other non-current liabilities		(347,246)	(1,884,221)
Cash inflow generated from operations		1,565,761	897,483
Interest received		1,883	1,757
Dividends received		2,310,238	1,568,757
Interest paid		(120,511)	(114,547)
Income tax paid		(179)	(288,777)
Net cash flows from operating activities		3,757,192	2,064,673

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FORMOSA TAFFETA CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>For the years ended December 31,</u>	
		<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Proceeds fom disposal of available-for-sale financial assets		\$ -	\$ 81,126
Acquisition of available-for-sale financial assets		(85,852)	(53,674)
Acquisition of financial assets measured at cost		(198,066)	-
Proceeds fom capital reduction of financial assets measured at cost		23,549	10,704
Acquisition of investments accounted for under the equity method		(585,073)	-
Acquisition of property, plant, and equipment	6(27)	(570,916)	(641,259)
Proceeds from disposal of property, plant and equipment		86,080	231,991
(Increase) decrease in other non-current assets		(59,498)	42,677
Net cash flows used in investing activities		(1,389,776)	(328,435)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term borrowings		(12,776)	(286,629)
Increase (decrease) in short-term notes and bills payable		299,979	(699,698)
Increase in long-term borrowings		10,900,000	5,800,000
Payment of long-term borrowings		(11,200,000)	(4,700,000)
Payment of cash dividends	6(17)	(2,526,997)	(2,021,598)
Net cash flows used in financing activities		(2,539,794)	(1,907,925)
Net decrease in cash and cash equivalents		(172,378)	(171,687)
Cash and cash equivalents at beginning of year	6(1)	1,023,947	1,195,634
Cash and cash equivalents at end of year	6(1)	<u>\$ 851,569</u>	<u>\$ 1,023,947</u>

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

FORMOSA TAFFETA CO., LTD.
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

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

1. HISTORY AND ORGANIZATION

(1) Formosa Taffeta Co., Ltd. (the “Company”) was incorporated on April 19, 1973 under the provisions of the Company Law of the Republic of China (R.O.C.). Factories were established in Douliou City of Yulin County, R.O.C. On December 24, 1985, the Company’s common stock was officially listed on the Taiwan Stock Exchange Corporation.

The major operations of each department are as follows:

<u>Business department</u>	<u>Major activities</u>
Primary department: Fabrics & dyeing	Amine fabrics, polyester fabrics, cotton fabrics, blending fabrics and umbrella ribs
Secondary department: Cord fabrics, petroleum & others	Cord, plastics bags, refineries for gasoline, diesel, crude oil and the related petroleum products, cotton fibers, blending fibers and protection fibers

(2) Formosa Chemicals & Fiber Corp. has significant control over the Company since Formosa Chemicals & Fiber Corp. holds over half of the Board seats after the stockholders’ meeting on June 27, 2008. Since June 27, 2008, Formosa Chemicals & Fiber Corp. became the Company’s parent company and accordingly, the Company and its subsidiaries are included in its consolidated financial statements.

(3) As of December 31, 2017 and 2016, the Company had 4,741 and 4,854 employees, respectively.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These parent company only financial statements were authorized for issuance by the Board of Directors on March 16, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments as endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016
The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.	

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

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

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

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

Based on the Company's assessment, the major effects of the above standards and interpretations on the Company's financial condition and financial performance are summarized below:

A. IFRS 9, 'Financial instruments'

Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

B. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Company expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

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

A. In accordance with IFRS 9, the Company expects to reclassify available-for-sale financial assets - current, available-for-sale financial assets - non-current and financial assets at cost in the amounts of \$1,911,496, \$43,363,486 and \$ 266,009, respectively, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income - current, financial assets at fair value through other comprehensive income - non-current in the amounts of \$1,911,496 and \$43,695,389, respectively, decreasing investments accounted for using equity method in the amount of \$343, increasing retained earnings and decreasing other equity interest in the amounts of \$4,825,623 and \$4,760,072, respectively.

B. As Formosa Advanced Technologies Co., Ltd. expects to adopt the new standard (IFRS 15) endorsed by the FSC effective from 2018, the Company recognizes the significant effects of

applying the new standard as of January 1, 2018 by its ownership, increasing investments accounted for under equity method and retained earnings in the amounts of \$65,294 and \$65,294, respectively.

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

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases'

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements were prepared in accordance with 'Regulations Governing the Preparation of Financial Reports by Securities Issuers'.

(2) Basis of preparation

A.Except for the following items, these parent company only financial statements have been prepared

under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognized based on the net amount of pension fund assets and unrecognized actuarial losses, and less unrecognized actuarial gains and present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). These parent company only financial statements are presented in New Taiwan Dollars, which is the Company’s functional and presentation currency.

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

The operating results and financial position of all the group entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognized in other comprehensive income.

(4) Classification of current and non-current items

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

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

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

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

(5) Cash equivalents

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

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

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as financial assets held for trading unless they are designated as hedges.

- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using settlement date accounting.
- C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(7) Available-for-sale financial assets

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

(8) Loans and receivables

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

(9) Impairment of financial assets

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Company, for economic or legal reasons relating to the borrower's financial difficulty,

- granted the borrower a concession that a lender would not otherwise consider;
- (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (e) The disappearance of an active market for that financial asset because of financial difficulties;
 - (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
- (a) Financial assets measured at amortised cost

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

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset directly.
 - (c) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period,

the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

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

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Company has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred, and the Company has not retained control of the financial asset.

(11) Inventories

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

(12) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(13) Investments accounted for using equity method / subsidiaries and associates

- A. Subsidiaries refer to the entities (including special purpose entities) that the Company has control over their financial and operating policies and own more than 50% of voting shares directly or indirectly. The Company evaluates investments in subsidiaries accounted under equity method in these parent company only financial statements.
- B. Unrealized profit (loss) from the transactions between the Company and subsidiaries have been offset. The accounting policies of the subsidiaries have been adjusted to ensure consistency with the policies of the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income.
- D. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or

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

- E. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- F. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- G. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- H. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest.
- I. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss.
- J. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the consolidated financial statements. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the consolidated financial statements.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss

during the financial period in which they are incurred.

- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

<u>Item</u>	<u>Estimated useful lives</u>
Buildings and structures	10 ~ 60 years
Machinery and equipment	5 ~ 10 years
Transportation equipment	3 ~ 15 years
Other equipment	2 ~ 15 years

(15) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 30 years.

(16) Impairment of non-financial assets

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

(17) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(18) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and

subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

B. Financial liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognized in profit or loss.

(20) Derecognition of financial liabilities

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

(21) Offsetting financial instruments

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

(22) Financial guarantee contracts

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

(23) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plan

For defined contribution plan, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) instead.
- ii. Actuarial gains and losses arising on defined benefit plans are recognized in profit or loss using the 'corridor' method in the period in which they arise.
- iii. Past service costs are recognized immediately in profit or loss.

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

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

(24) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. In the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in

subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carry forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(25) Share capital

Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(26) Dividends

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

(27) Revenue recognition

The Company manufactures and sells various fabrics and renders services as an oil distributor. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial

involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

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

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

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

Financial assets—impairment of equity investments

The Company follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

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

(2) Critical accounting estimates and assumptions

A. Impairment valuation of accounts receivable

In evaluating impairment of accounts receivable, the Company determines future recoverability of accounts receivable based on subjective judgement and estimates, taking into consideration the customer's financial condition, internal credit rating, and historical transaction records. The Company evaluated individually the collectibility of accounts receivable and provided allowance if there was any concern on recoverability. The provision for allowance was reasonable based on conditions existing at the balance sheet date.

The Company's accounts receivable amounted to \$1,948,346 as at December 31, 2017.

B. Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Company must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on

balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2017, the carrying amount of inventories was \$4,963,569.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and petty cash	\$ 127,882	\$ 100,880
Checking accounts and demand deposits	583,406	521,220
Cash equivalents - Commercial paper	140,281	401,847
	<u>\$ 851,569</u>	<u>\$ 1,023,947</u>

A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Company's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B. The Company has no cash and cash equivalents pledged to others.

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

<u>Items</u>	<u>December 31, 2017</u>
Current items:	
Financial assets held for trading	
Forward foreign exchange contracts	<u>\$ 398</u>

A. The Group recognized net gain of \$398 on financial assets held for trading for the year ended December 31, 2017.

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

	<u>December 31, 2017</u>	
<u>Derivative instruments</u>	<u>Contract amount</u>	<u>Contract period</u>
	<u>(notional principal)</u>	
Current items:		
Forward foreign exchange contracts	<u>JPY 192,020</u>	2017/11-2018/2

C. The Group entered into forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies. However, these forward foreign exchange contracts do not meet all conditions of hedge accounting and are not accounted for under hedge accounting.

(3) Available-for-sale financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current items:		
Listed (TSE and OTC) stocks	\$ 900,285	\$ 814,433
Unlisted stocks	100,000	100,000
Valuation adjustment of available-for-sale financial assets	<u>911,211</u>	<u>697,505</u>
	<u>\$ 1,911,496</u>	<u>\$ 1,611,938</u>
Non-current items:		
Listed (TSE and OTC) stocks	\$ 10,670,029	\$ 10,670,029
Valuation adjustment of available-for-sale financial assets	<u>37,110,306</u>	<u>35,401,623</u>
	<u>47,780,335</u>	<u>46,071,652</u>
Accumulated impairment	(<u>4,416,849</u>)	(<u>4,416,849</u>)
	<u>\$ 43,363,486</u>	<u>\$ 41,654,803</u>

- A. The Company recognized \$2,127,178 and \$12,815,606 in other comprehensive income for fair value change to profit or loss for the years ended December 31, 2017 and 2016, respectively.
- B. On January 8, 2016, the Company participated in the capital increase of Nan Ya Technology Corporation in the amount of \$558,348 in cash.
- C. As of December 31, 2017 and 2016, no available-for-sale financial assets held by the Company were pledged to others.

(4) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 1,985,410	\$ 1,989,778
Less: Allowance for bad debts	(<u>37,064</u>)	(<u>39,059</u>)
	<u>\$ 1,948,346</u>	<u>\$ 1,950,719</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Group 1	\$ 1,669,468	\$ 1,689,058
Group 2	221,529	222,215
Group 3	<u>41,028</u>	<u>22,125</u>
	<u>\$ 1,932,025</u>	<u>\$ 1,933,398</u>

Note:

Group 1: Transnational customers, brand customers or credit customers applied for collateralised mortgage.

Group 2: Non transnational customers, non brand customers or credit customers have not applied for collateralised mortgage with 2 or more years of transaction history with the Company.

Group 3: Non transnational customers, non brand customers or credit customers have not applied for collateralised mortgage with less than 2 years of transaction history with the Company.

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

	December 31, 2017	December 31, 2016
Up to 30 days	\$ 42,773	\$ 42,640
31 to 90 days	6,944	9,482
91 to 180 days	32	1,050
Over 180 days	3,636	3,208
	<u>\$ 53,385</u>	<u>\$ 56,380</u>

The above ageing analysis was based on past due date.

C. Movement analysis of financial assets that were impaired - allowance for bad debts is as follows:

	December 31, 2017	December 31, 2016
At January 1	\$ 35,059	\$ 42,211
Reversal of provision for impairment	(1,995)	(3,152)
At December 31	<u>\$ 33,064</u>	<u>\$ 39,059</u>

D. The Company does not hold any collateral as security.

(5) Inventories

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 435,007	(\$ 8,283)	\$ 426,724
Supplies	73,480	(5,309)	68,171
Work in process	1,710,500	-	1,710,500
Finished goods	2,212,326	(230,286)	1,982,040
Merchandise inventory	286,276	-	286,276
Materials in transit	369,828	-	369,828
Outsourced processed materials	120,030	-	120,030
	<u>\$ 5,207,447</u>	<u>(\$ 243,878)</u>	<u>\$ 4,963,569</u>

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 431,816	(\$ 10,253)	\$ 421,563
Supplies	44,763	(2,131)	42,632
Work in process	1,461,686	-	1,461,686
Finished goods	1,885,897	(206,930)	1,678,967
Merchandise inventory	245,550	-	245,550
Materials in transit	435,371	-	435,371
Outsourced processed materials	78,581	-	78,581
	<u>\$ 4,583,664</u>	<u>(\$ 219,314)</u>	<u>\$ 4,364,350</u>

The cost of inventories recognized as expense for the years ended December 31, 2017 and 2016 were as follows:

	Years ended December 31,	
	2017	2016
Cost of inventories sold	\$ 23,211,459	\$ 21,808,780
Loss on inventory valuation	24,564	21,470
Others (Note)	(20,563)	(8,661)
	<u>\$ 23,215,460</u>	<u>\$ 21,821,589</u>

Note: Others consist of inventory overage/shortage and disposal of scrap and defective materials.

(6) Financial assets measured at cost – non-current

Items	December 31, 2017	December 31, 2016
Unlisted stocks	<u>\$ 266,009</u>	<u>\$ 91,493</u>

- A. Based on the Company's intention, its investment in stocks should be classified as 'available-for-sale financial assets'. However, as stocks are not traded in active market, and no sufficient industry information of companies similar to the investee or related financial information on the investee can be obtained, the fair value of the investment in stocks cannot be measured reliably. The Company classified those stocks as 'financial assets measured at cost'.
- B. The Company has assessed that part of the aforementioned financial instrument is impaired and accordingly, recognized impairment loss of \$0 and \$138,044 (shown as "Other gains and losses") for the years ended December 31, 2017 and 2016, respectively.
- C. As of December 31, 2017 and 2016, no financial assets measured at cost held by the Company were pledged to others.

(7) Investments accounted for using equity method

A. List of long-term investments

	December 31, 2017	December 31, 2016
Formosa Advanced Technologies Co., Ltd.	\$ 7,347,846	\$ 6,815,323
Formosa Taffeta (Cayman) Limited	5,490,420	5,316,911
Formosa Taffeta Dong Nai Co., Ltd.	2,228,212	2,342,320
Formosa Industry Co., Ltd.	1,938,483	2,193,337
Taffeta (Zhong Shan) Co, Ltd.	1,635,550	1,590,666
Formosa Taffeta Vietnam Co., Ltd.	1,806,539	1,763,630
Formosa Taffeta (Hong Kong) Co., Ltd.	1,092,248	1,025,680
Quang Viet Enterprise Co., Ltd.	1,149,965	1,175,070
Formosa Development Co., Ltd.	206,279	199,566
Schoeller F.T.C. (Hong Kong) Co., Ltd.	4,217	8,977
Xiamen Xiangyu Formosa Import & Export Trading	6,206	7,313
	<u>\$ 22,905,965</u>	<u>\$ 22,438,793</u>

B. The investment income (loss) on subsidiaries and associates accounted for using equity method for the years ended December 31, 2017 and 2016 was as follows:

	Years ended December 31,	
	2017	2016
Formosa Advanced Technologies Co., Ltd.	\$ 914,979	\$ 663,595
Quang Viet Enterprise Co., Ltd.	112,417	140,023
Formosa Taffeta Vietnam Co., Ltd.	163,188	191,512
Formosa Industry Co., Ltd.	77,090	205,950
Formosa Development Co., Ltd.	11,313	14,620
Taffeta (Zhong Shan) Co, Ltd.	72,999	14,021
Formosa Taffeta Dong Nai Co., Ltd.	57,981	120,502
Schoeller F.T.C. (Hong Kong) Co., Ltd.	2,653	7,061
Formosa Taffeta (Hong Kong) Co., Ltd.	89,049	72,275
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	(959)	(242)
Formosa Taffeta (Cayman) Limited	(137)	(144)
	<u>\$ 1,500,573</u>	<u>\$ 1,429,173</u>

Except for the investee companies, Formosa Advanced Technologies Co., Ltd., Formosa Taffeta (Zhong Shan) Co., Ltd., Formosa Taffeta (Cayman) Co., Ltd., Formosa Taffeta (Hong Kong) Co., Ltd. and its subsidiary, Formosa Taffeta (Changshu) Co., Ltd., Formosa Development Co., Ltd. and its subsidiary, Public More Internation Ltd. (established in 2017), the investment income or loss for the years ended December 31, 2017 and 2016 was based on the investees' financial statements audited by other auditors.

C. The share of income of subsidiaries and associates accounted for using equity method of \$412,370 and \$664,806 for the years ended December 31, 2017 and 2016, respectively, were based on the audited financial statements of the investee companies.

D. Subsidiaries

(a) Information on the Company's subsidiaries is provided in Note 4(3) of the Company's 2017 consolidated financial statements.

(b) As at December 31, 2017 and 2016, the Company's common stocks owned by its subsidiary, Formosa Development Co., Ltd., were 2,293,228 and 2,473,228 shares, treated as treasury stock.

E. Associates

(a) The financial information of the Company's principal associates is summarized below:

<u>Company name</u>	<u>Principal place of business</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Nature of relationship</u>	<u>Method of measurement</u>
Formosa Industry Co., Ltd.	Vietnam	10.00%	10.00%	Associate	Equity method
Kuang Yueh Co., Ltd.	Taiwan	17.92%	17.92%	Associate	Equity method

(b) As the Company is a director of Formosa Industry Co., Ltd. and Quang Viet Enterprise Co., Ltd., it exercises significant influence over its operations. Accordingly, Formosa Industry Co., Ltd. and Quang Viet Enterprise Co., Ltd. are accounted for using equity method.

(c) The financial information of the Company's principal associates is summarized below:

Balance sheets

	<u>Formosa Industry Co., Ltd.</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current assets	\$ 9,291,100	\$ 9,902,327
Non-current assets	20,614,037	22,770,600
Current liabilities	(5,965,869)	(2,446,476)
Non-current liabilities	(5,439,066)	(9,197,191)
Total net assets	<u>\$ 18,500,202</u>	<u>\$ 21,029,260</u>
Share in associate's net assets	\$ 1,850,020	\$ 2,102,926
Difference	<u>88,463</u>	<u>90,411</u>
Carrying amount of the associate	<u>\$ 1,938,483</u>	<u>\$ 2,193,337</u>

	Quang Viet Enterprise Co., Ltd.	
	December 31, 2017	December 31, 2016
Current assets	\$ 5,987,697	\$ 4,179,812
Non-current assets	2,705,609	4,067,560
Current liabilities	(2,064,121)	(1,497,783)
Non-current liabilities	(52,152)	(189,930)
Total net assets	<u>\$ 6,577,033</u>	<u>\$ 6,559,659</u>
Share in associate's net assets	\$ 1,178,604	\$ 1,177,838
Difference	(28,639)	(2,768)
Carrying amount of the associate	<u>\$ 1,149,965</u>	<u>\$ 1,175,070</u>

Statements of Comprehensive Income

	Formosa Industry Co., Ltd.	
	Year ended December 31, 2017	Year ended December 31, 2016
Revenue	\$ 25,827,459	\$ 24,353,298
Profit for the year from continuing operations		
(Total comprehensive income)	<u>\$ 806,833</u>	<u>\$ 2,096,286</u>

	Quang Viet Enterprise Co., Ltd.	
	Year ended December 31, 2017	Year ended December 31, 2016
Revenue	\$ 10,203,655	\$ 6,631,780
Profit for the year from continuing operations	546,996	699,139
Other comprehensive loss	(110,617)	(142,373)
Total comprehensive income	<u>\$ 436,379</u>	<u>\$ 556,766</u>

- F. In October 2016, Quang Viet Enterprise Co., Ltd. issued new shares for cash before initial public offering. The Company did not subscribe to the capital increase in proportion to its shareholding ratio, causing the change in shareholding ratio but still has significant influence in this company. Consequently, the Company recognized increase in capital surplus of \$244,233 due to changes in equity.
- G. The significant associate, Kuang Yueh Co., Ltd., has quoted market prices. As of December 31, 2017 and 2016, the fair value was \$2,426,693 and \$2,677,731, respectively.
- H. Investment in Formosa Advanced Technologies Co., Ltd. has quoted market price and the fair value was \$9,135,108 and \$6,840,438 as of December 31, 2017 and 2016, respectively.

(8) Property, plant and equipment

	Land	Buildings and structures	Machinery	Transportation equipment and other equipment	Prepayments for equipment	Total
<u>At January 1, 2017</u>						
Cost	\$ 2,410,979	\$ 6,339,163	\$ 14,156,729	\$ 4,330,752	\$ 159,812	\$ 27,397,435
Accumulated depreciation	- (	3,864,255)	(11,659,728)	(4,103,065)	- (	19,627,048)
Accumulated impairment	(155,738)	-	-	-	-	(155,738)
	<u>\$ 2,255,241</u>	<u>\$ 2,474,908</u>	<u>\$ 2,497,001</u>	<u>\$ 227,687</u>	<u>\$ 159,812</u>	<u>\$ 7,614,649</u>
<u>2017</u>						
Opening net book amount	\$ 2,255,241	\$ 2,474,908	\$ 2,497,001	\$ 227,687	\$ 159,812	\$ 7,614,649
Additions	-	-	-	-	574,174	574,174
Disposals	- (	29)	(39,032)	(326)	- (	39,387)
Transfers (Note)	108	(45,614)	394,748	35,157	(321,524)	62,875
Depreciation charge	-	(228,250)	(505,444)	(46,228)	-	(779,922)
Closing net book amount	<u>\$ 2,255,349</u>	<u>\$ 2,201,015</u>	<u>\$ 2,347,273</u>	<u>\$ 216,290</u>	<u>\$ 412,462</u>	<u>\$ 7,432,389</u>
<u>At December 31, 2017</u>						
Cost	\$ 2,411,087	\$ 6,293,337	\$ 14,217,461	\$ 4,251,596	\$ 412,462	\$ 27,585,943
Accumulated depreciation	- (	4,092,322)	(11,870,188)	(4,035,306)	- (	19,997,816)
Accumulated impairment	(155,738)	-	-	-	-	(155,738)
	<u>\$ 2,255,349</u>	<u>\$ 2,201,015</u>	<u>\$ 2,347,273</u>	<u>\$ 216,290</u>	<u>\$ 412,462</u>	<u>\$ 7,432,389</u>

Note: Transferred from non-current assets held for sale and discontinued operations.

				Transportation equipment and other equipment	Prepayments for equipment	Total
<u>At January 1, 2016</u>	<u>Land</u>	<u>Buildings and structures</u>	<u>Machinery</u>			
Cost	\$ 2,406,221	\$ 6,169,461	\$ 14,375,134	\$ 4,356,222	\$ 668,604	\$ 27,975,642
Accumulated depreciation	- (	3,653,321)	(12,129,156)	(4,162,621)	- (	19,945,098)
Accumulated impairment	(155,738)	-	-	-	- (	155,738)
	<u>\$ 2,250,483</u>	<u>\$ 2,516,140</u>	<u>\$ 2,245,978</u>	<u>\$ 193,601</u>	<u>\$ 668,604</u>	<u>\$ 7,874,806</u>
<u>2016</u>						
Opening net book amount	\$ 2,250,483	\$ 2,516,140	\$ 2,245,978	\$ 193,601	\$ 668,604	\$ 7,874,806
Additions	-	-	-	-	651,355	651,355
Disposals	- (	168)	(105,347)	(176)	- (	105,691)
Transfers (Note)	4,758	169,941	892,670	92,260	(1,160,147)	(518)
Depreciation charge	- (	211,005)	(536,300)	(57,998)	- (	805,303)
Closing net book amount	<u>\$ 2,255,241</u>	<u>\$ 2,474,908</u>	<u>\$ 2,497,001</u>	<u>\$ 227,687</u>	<u>\$ 159,812</u>	<u>\$ 7,614,649</u>
<u>At December 31, 2016</u>						
Cost	\$ 2,410,979	\$ 6,339,163	\$ 14,156,729	\$ 4,330,752	\$ 159,812	\$ 27,397,435
Accumulated depreciation	- (	3,864,255)	(11,659,728)	(4,103,065)	- (	19,627,048)
Accumulated impairment	(155,738)	-	-	-	- (	155,738)
	<u>\$ 2,255,241</u>	<u>\$ 2,474,908</u>	<u>\$ 2,497,001</u>	<u>\$ 227,687</u>	<u>\$ 159,812</u>	<u>\$ 7,614,649</u>

Note: Transferred to non-current assets held for sale and discontinued operations.

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

	Years ended December 31,	
	2017	2016
Amount capitalised	\$ 3,485	\$ 2,692
Interest rate	0.97~1.03%	1.02~1.11%

- B. The components and useful lives of property, plant and equipment are as follows:

Items	Significant components	Estimated useful lives
Buildings	Factory and gasoline stations	10 ~ 60 years
Machinery and equipment	Impregnating machine, dyeing machine and other machinery equipment	5 ~ 20 years
Transportation equipment	Pallet trucks and fork lift trucks	5 ~ 10 years
Other equipment	Cogeneration power generation equipment	2~ 15 years

- C. Certain regulations restrict ownership of land to individuals, thus, the title of land which the Company has acquired for future plant expansion is under the name of third parties but the titles were transferred and mortgaged by the Company. As of December 31, 2017 and 2016, the amounts of titles mortgaged to the Company were \$808,300.

(9) Non-current assets held for sale

	December 31, 2016
Property, plant and equipment	\$ 64,509

The assets related to machinery have been reclassified as disposal group held for sale following the approval by the Company during the year ended December 31, 2016 to sell the machinery. Part of the assets were sold, and the unsold assets were reclassified to property, plant and equipment.

(10) Short-term borrowings

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Bank borrowings			
Purchase loans	\$ 7,386	0.32%~0.36%	-

Type of borrowings	December 31, 2016	Interest rate range	Collateral
Bank borrowings			
Credit borrowing	\$ 20,162	0.32%~1.95%	-

(11) Short-term notes and bills payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Commercial papers payable	\$ 1,300,000	\$ 1,000,000
Less: Commercial papers payable discount	(194)	(173)
	<u>\$ 1,299,806</u>	<u>\$ 999,827</u>
Interest rate	<u>0.56%</u>	<u>0.86%</u>

As at December 31, 2017 and 2016, the abovementioned commercial papers payable are guaranteed by International Bills Finance Corporation, etc.

(12) Financial liabilities at fair value through profit or loss-current

- A. The Company had no financial liabilities held for trading for the years ended December 31, 2017 and 2016.
- B. The Company recognized net gain of \$277 on financial liabilities held for trading for the year ended December 31, 2016.
- C. The Group entered into forward foreign exchange contracts to hedge exchange rate risk of assets and liabilities denominated in foreign currencies. However, these forward foreign exchange contracts do not meet all conditions of hedge accounting and are not accounted for under hedge accounting.

(13) Long-term borrowings

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Credit borrowing	\$ 10,800,000	\$ 11,100,000
Interest rate	<u>1.00%~1.05%</u>	<u>0.99%~1.07%</u>

(14) Pensions

- A. (a)The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make

contribution for the deficit by next March.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	\$ 2,789,932	\$ 2,635,292
Fair value of plan assets	(2,055,899)	(1,885,026)
Net defined benefit liability	<u>\$ 734,033</u>	<u>\$ 750,266</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
<u>Year ended December 31, 2017</u>			
Balance at January 1	\$ 2,635,292	(\$ 1,885,026)	\$ 750,266
Current service cost	31,452	-	31,452
Interest expense (income)	<u>32,941</u>	<u>(24,238)</u>	<u>8,703</u>
	<u>\$ 2,699,685</u>	<u>(\$ 1,909,264)</u>	<u>\$ 790,421</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	10,450	10,450
Experience adjustments	<u>316,171</u>	<u>-</u>	<u>316,171</u>
	<u>316,171</u>	<u>10,450</u>	<u>326,621</u>
Pension fund contribution	-	(373,420)	(373,420)
Paid pension	<u>(225,924)</u>	<u>216,335</u>	<u>(9,589)</u>
Balance at December 31	<u>\$ 2,789,932</u>	<u>(\$ 2,055,899)</u>	<u>\$ 734,033</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2016</u>			
Balance at January 1	\$ 2,967,089	(\$ 186,447)	\$ 2,780,642
Current service cost	41,321	-	41,321
Interest expense (income)	42,916	(2,202)	40,714
	<u>\$ 3,051,326</u>	<u>(\$ 188,649)</u>	<u>\$ 2,862,677</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	278	278
Change in financial assumptions	38,855	-	38,855
Experience adjustments	(199,192)	-	(199,192)
	<u>(160,337)</u>	<u>278</u>	<u>(160,059)</u>
Pension fund contribution	-	(1,952,285)	(1,952,285)
Paid pension	(255,697)	255,630	(67)
Balance at December 31	<u>\$ 2,635,292</u>	<u>(\$ 1,885,026)</u>	<u>\$ 750,266</u>

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earning is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

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

	Year ended December 31, 2017	Year ended December 31, 2016
Discount rate	1.25%	1.25%
Future salary increases	1.00%	1.00%

Assumptions regarding future mortality experience are set based on the Taiwan Standard Ordinary Experience Mortality Table for the years ended December 31, 2017 and 2016, respectively.

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

	Discount rate		Future salary increases	
	Increase	Decrease	Increase	Decrease
	0.25%	0.25%	1.00%	1.00%
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 36,610)	\$ 38,067	\$ 167,805	(\$ 146,598)
December 31, 2016				
Effect on present value of defined benefit obligation	(\$ 38,855)	\$ 40,440	\$ 173,095	(\$ 150,467)

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

(f) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2018 are \$95,184.

(g) As of December 31, 2017, the weighted average duration of that retirement plan is 9 years.

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

(b) The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2017 and 2016 were \$72,370 and \$83,746, respectively.

(15) Share capital

A. As of December 31, 2017, the Company's authorized and issued capital was \$16,846,646, consisting of 1,684,665,000 shares of common stocks, with a par value of \$10 per share.

B. For the years ended December 31, 2017 and 2016, changes in treasury stocks are as follows (in thousands of shares):

<u>Reason for reacquisition</u>	<u>Investee company</u>	<u>2017</u>			
		<u>Beginning Shares</u>	<u>Additions</u>	<u>Disposal (Note)</u>	<u>Ending Shares</u>
Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries	Formosa Development Co., Ltd.	<u>2,473</u>	<u>-</u>	<u>(180)</u>	<u>2,293</u>
<u>Reason for reacquisition</u>	<u>Investee company</u>	<u>2016</u>			
		<u>Beginning Shares</u>	<u>Additions</u>	<u>Disposal (Note)</u>	<u>Ending Shares</u>
Long-term equity investment transferred to treasury stock for parent company's shares held by subsidiaries	Formosa Development Co., Ltd.	<u>2,563</u>	<u>-</u>	<u>(90)</u>	<u>2,473</u>

Note: For the years ended December 31, 2017 and 2016, the subsidiary company disposed its investment in the Company of 180,000 shares and 90,000 shares and generated capital surplus of \$2,891 and \$1,434, respectively.

C. The abovementioned treasury stocks were acquired by the subsidiary, Formosa Development Co., Ltd., for investment purposes.

D. As of December 31, 2017 and 2016, the market price per share of the Company was \$31.30 and \$29.50, respectively.

(16) Capital surplus

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

2017					
	Treasury share transactions	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Donated assets received	Changes in net equity of associates and joint ventures accounted for under equity method	Other
At January 1	\$ 13,569	\$ 545	\$ 2,032	\$ 250,312	\$ -
Disposal of treasury shares	2,891	-	-	-	-
Adjustment of cash dividends paid to consolidated subsidiaries	3,439	-	-	-	-
Changes in the net interest of associates recognised under the equity method	-	-	-	33	-
Expired cash dividends transferred to capital surplus	-	-	-	-	1,502
At December 31	<u>\$ 19,899</u>	<u>\$ 545</u>	<u>\$ 2,032</u>	<u>\$ 250,345</u>	<u>\$ 1,502</u>
2016					
	Treasury share transactions	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Donated assets received	Changes in net equity of associates and joint ventures accounted for under equity method	Other
At January 1	\$ 12,135	\$ 545	\$ 2,032	\$ 6,079	\$ -
Disposal of treasury shares	1,434	-	-	-	-
Changes in the net interest of associates recognised under the equity method	-	-	-	244,233	-
At December 31	<u>\$ 13,569</u>	<u>\$ 545</u>	<u>\$ 2,032</u>	<u>\$ 250,312</u>	<u>\$ -</u>

(17) Retained earnings

A. According to the R.O.C. Securities Exchange Law No. 41, a company should reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year from the net income and prior unappropriated earnings as special reserve. If the valuation or contra-account in stockholders' equity belongs to prior periods, the same amount from prior period earnings should be considered special reserve and cannot be distributed. The special reserve includes: i) reserve for special purposes, ii) investment income recognized under the equity method, iii) net proceeds from the recognition of financial asset transactions; only when the accumulated value decreases should the special reserve be adjusted by the same amount, subject to the provisions in this section; and iv) other special reserves set out by legal provisions.

According to the R.O.C. Company Law and the Company's Articles of Incorporation, the annual net income should be used initially to cover any accumulated deficit; 10% of the annual net income should be set aside as legal reserve and special reserve. The remaining balance shall be distributed to shareholders according to their shareholding percentage.

B. The Company's dividend policy is summarized below:

As the Company operates in a volatile business environment and is in the stable growth stage, the dividend policy includes cash dividends, stock dividends and capital increase by earnings recapitalization. At least 50% of the Company's distributable earnings shall be appropriated as dividends after deducting the legal reserve and special reserves. The Company would prefer distributing cash dividends. However, if significant investment measures are taken or the Company's financial structure needs to be improved, part of the dividends would be in the form of stock dividends but not to exceed 50% of the total dividends.

C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

D. The appropriations of 2016 and 2015 earnings had been resolved at the stockholders' meeting on June 23, 2017 and June 24, 2016, respectively. Details are summarized below:

	2016		2015	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 348,129		\$ 282,868	
Special reserve	506,036		326,718	
Cash dividends	2,526,997	\$ 1.50	2,021,598	\$ 1.20
	<u>\$ 3,381,162</u>		<u>\$ 2,631,184</u>	

E. As of December 31, 2017 and 2016, unpaid stock dividends amounted to \$8,444 and \$9,311, respectively.

F. The appropriations of 2017 earnings had been resolved by the Board of Directors on March 16, 2018. Details are summarized below:

	2017	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 427,987	
Cash dividends	3,200,863	\$ 1.90
	<u>\$ 3,628,850</u>	

As of March 16, 2018, the above appropriations of 2017 earnings has not yet been resolved by the shareholders.

G. For information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(23).

(18) Other equity items

	Hedging reserve	Currency translation
January 1, 2017	\$ 36,313,040	\$ 13,387
Change in unrealised gain or loss on available-for-sale financial assets		
— Parent company	1,922,389	-
— Subsidiaries and associates	204,789	-
Difference in long-term equity investment from financial statements translation differences of foreign operations		
— Parent company	- (	732,473)
— Associates	- (	195,181)
December 31, 2017	<u>\$ 38,440,218</u>	<u>(\$ 914,267)</u>

	Hedging reserve	Currency translation
January 1, 2016	\$ 23,497,434	\$ 646,176
Change in unrealised gain or loss on available-for-sale financial assets		
— Parent company	12,596,040	-
— Subsidiaries and associates	219,566	-
Difference in long-term equity investment from financial statements translation differences of foreign operations		
— Parent company	- (	437,363)
— Associates	- (	195,426)
December 31, 2016	<u>\$ 36,313,040</u>	<u>\$ 13,387</u>

(19) Operating revenue

	Years ended December 31,	
	2017	2016
Sales revenue	\$ 25,453,390	\$ 24,308,936
Service revenue	260,449	286,247
	<u>\$ 25,713,839</u>	<u>\$ 24,595,183</u>

(20) Other income

	Years ended December 31,	
	2017	2016
Interest income from bank deposits	\$ 1,883	\$ 1,757
Dividend income	2,310,238	1,568,757
Other income	351,893	274,797
	<u>\$ 2,664,014</u>	<u>\$ 1,845,311</u>

(21) Other gains and losses

	Years ended December 31,	
	2017	2016
Forward foreign exchange contracts		
Net gain on financial assets at fair value through profit or loss	\$ 398	\$ -
Net gain on financial liabilities at fair value through profit or loss	-	277
Net currency exchange loss	(120,816)	(17,856)
Gain on disposal of property, plant and equipment	45,615	23,318
Bank charges	(33,578)	(34,231)
Loss on disposal of investment	-	(7,294)
Impairment loss	-	(138,044)
Other losses	(60,170)	(57,942)
	<u>(\$ 168,551)</u>	<u>(\$ 231,772)</u>

(22) Expenses by nature

	Years ended December 31,	
	2017	2016
Employee benefit expense	\$ 2,804,386	\$ 2,863,714
Depreciation charges on property, plant and equipment	779,922	805,303
	<u>\$ 3,584,308</u>	<u>\$ 3,669,017</u>

(23) Employee benefit expense

	Years ended December 31,	
	2017	2016
Wages and salaries	\$ 2,361,835	\$ 2,363,346
Labour and health insurance fees	234,761	231,070
Pension costs	112,525	165,781
Other personnel expenses	95,265	103,517
	<u>\$ 2,804,386</u>	<u>\$ 2,863,714</u>

A. According to the Articles of Incorporation, the Company distributed employees' compensation at a ratio of profit before income tax of the current year, after covering accumulated losses. The ratio shall not be lower than 0.05% and shall not be higher than 0.5% for employees' compensation.

B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$8,994 and \$7,559, respectively; while directors' and supervisors' remuneration was accrued at \$4,497 and \$3,779, respectively. The aforementioned amount was recognized in salary expenses.

For the year ended December 31, 2017, the employees' compensation was estimated and accrued based on the Articles of Incorporation. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors totalled to \$8,994 and \$4,497, respectively, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration for 2016 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2016 financial statements. For the year ended December 31, 2016, employees' compensation was \$7,559 and distributed in cash.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors and shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(24) Finance costs

	Years ended December 31,	
	2017	2016
Interest expense:		
Bank borrowings	\$ 120,573	\$ 118,257
Less: Capitalisation of qualifying assets	(3,485)	(2,692)
Finance costs	<u>\$ 117,088</u>	<u>\$ 115,565</u>

(25) Income tax

A. Income tax expense

	Years ended December 31,	
	2017	2016
Current tax:		
Current tax on profits for the year	(\$ 24,998)	(\$ 126,991)
Additional 10% tax on undistributed earnings	76,622	32,672
Adjustments in respect of prior years	24,997	49,741
Prepayment of taxes	-	101,994
Total current tax	76,621	57,416
Deferred tax:		
Origination and reversal of temporary differences	126,928	229,284
Tax expense	<u>\$ 203,549</u>	<u>\$ 286,700</u>

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 762,182	\$ 640,557
Tax effect of permanent differences	(558,800)	(343,626)
Tax effect of temporary differences	(122,472)	(415,868)
Tax effect of investment tax credits	(24,998)	(24,998)
Under provision of prior year's income tax	24,997	49,741
Net change in deferred income tax assets and liabilities	126,928	229,284
Effect on income tax from loss carryforward	(80,910)	118,938
Additional 10% tax on undistributed earnings	76,622	32,672
Tax expense	<u>\$ 203,549</u>	<u>\$ 286,700</u>

Note: The basis for computing the applicable tax rate is the rate applicable in the respective countries where the Group entities operate.

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

Year ended December 31, 2017						
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31	
Deferred tax assets:						
-Temporary differences						
Provision for inventory obsolescence	\$ 16,874	\$ 4,175	\$ -	\$ -	\$ 21,049	
Allowance for bad debts in excess of tax deductible limit	2,084	44	-	-	2,128	
Accrued pension liabilities	88,432	(56,656)	-	-	31,776	
Unrealized foreign exchange loss	-	2,576	-	-	2,576	
Unrealized gain on disposal of equipment	17,506	205	-	-	17,711	
-Loss carryforward	118,938	(69,549)	-	-	49,389	
	<u>243,834</u>	<u>(119,205)</u>	<u>-</u>	<u>-</u>	<u>124,629</u>	
Deferred tax liabilities:						
-Temporary differences						
Unrealized foreign exchange gain	(5,833)	5,833	-	-	-	
Investment income accounted for under equity method	(156,601)	(13,556)	-	-	(170,157)	
	<u>(162,434)</u>	<u>(7,723)</u>	<u>-</u>	<u>-</u>	<u>(170,157)</u>	
	<u>\$ 81,400</u>	<u>(\$ 126,928)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 45,528)</u>	
Year ended December 31, 2016						
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31	
Deferred tax assets:						
-Temporary differences						
Provision for inventory obsolescence	\$ 13,224	\$ 3,650	\$ -	\$ -	\$ 16,874	
Allowance for bad debts in excess of tax deductible limit	2,663	(579)	-	-	2,084	
Accrued pension liabilities	406,387	(317,955)	-	-	88,432	
Unrealized foreign exchange loss	8,752	(8,752)	-	-	-	
Unrealized gain on disposal of equipment	-	17,506	-	-	17,506	
Loss on valuation of financial assets	47	(47)	-	-	-	
-Loss carryforward	-	118,938	-	-	118,938	
	<u>431,073</u>	<u>(187,239)</u>	<u>-</u>	<u>-</u>	<u>243,834</u>	
Deferred tax liabilities:						
-Temporary differences						
Unrealized foreign exchange gain	-	(5,833)	-	-	(5,833)	
Investment income accounted for under equity method	(120,389)	(36,212)	-	-	(156,601)	
	<u>(120,389)</u>	<u>(42,045)</u>	<u>-</u>	<u>-</u>	<u>(162,434)</u>	
	<u>\$ 310,684</u>	<u>(\$ 229,284)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,400</u>	

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

December 31, 2017				
<u>Year incurred</u>	<u>Amount filed/ assessed</u>	<u>Unused amount</u>	<u>Unrecognized deferred tax assets</u>	<u>Expiry year</u>
2016	Filed	\$ 290,525	\$ -	2026

December 31, 2016				
<u>Year incurred</u>	<u>Amount filed/ assessed</u>	<u>Unused amount</u>	<u>Unrecognized deferred tax assets</u>	<u>Expiry year</u>
2016	Estimated	\$ 699,634	\$ -	2026

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

F. Unappropriated retained earnings of the Company as of December 31, 2016 were generated in and after 1998.

G. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed. As of December 31, 2016, the balance of the imputation tax credit account was \$375,288. The creditable tax rate was 17.66% for the year ended December 31, 2016.

(26) Earnings per share

A. Basic earnings per share

The calculation of basic earnings per share is profit or loss attributable to the common stockholders of the Company divided by weighted average amount of outstanding common stocks for the year.

Year ended December 31, 2017					
	Amount		Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	<u>\$ 4,483,420</u>	<u>\$ 4,279,871</u>	<u>1,682,339</u>	<u>\$ 2.66</u>	<u>\$ 2.54</u>

Year ended December 31, 2016					
	Amount		Weighted-average outstanding common shares (in thousands)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Net income	<u>\$ 3,767,985</u>	<u>\$ 3,481,285</u>	<u>1,682,143</u>	<u>\$ 2.24</u>	<u>\$ 2.07</u>

The following is the earnings per share assuming the shares of the Company held by its subsidiary, Formosa Development Co., Ltd., are not deemed as treasury shares:

	Year ended December 31, 2017				
	Amount		Outstanding	Earnings per share	
			common shares	(in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Net income	\$ 4,483,420	\$ 4,279,871	1,684,665	\$ 2.66	\$ 2.54
	Year ended December 31, 2016				
	Amount		Outstanding	Earnings per share	
			common shares	(in dollars)	
	Before tax	After tax	(in thousands)	Before tax	After tax
Net income	\$ 3,767,985	\$ 3,481,285	1,684,665	\$ 2.24	\$ 2.07

B. Employees' compensation could be distributed in the form of stock. It does not have significant effect on the financial statements for the years ended December 31, 2017 and 2016. It also had no significant effect on earnings per share.

(27) Non-cash transaction

Investing activities with partial cash payments:

	Years ended December 31,	
	2017	2016
Purchase of property, plant and equipment	\$ 574,174	\$ 651,355
Add: Opening balance of payable on equipment	10,196	-
Less: Ending balance of payable on equipment	(13,354)	(10,096)
Cash paid during the year	\$ 571,016	\$ 641,259

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Company is controlled by FORMOSA CHEMICALS & FIBRE CORPORATION (incorporated in R.O.C), which owns 37.4% of the Company's shares and is the Company's ultimate controlling party.

(2) Names of related parties and relationship

Names of related parties	Relationship with the Company
Formosa Chemicals & Fibre Corp.	Parent Company
Formosa Taffeta Dong Nai Co., Ltd.	Subsidiary
Formosa Advanced Technologies Co., Ltd.	Subsidiary
Formosa Taffeta Vietnam Co., Ltd.	Subsidiary
Schoeller F.T.C. (Hong Kong) Co., Ltd.	Subsidiary
Formosa Taffeta (Zhong Shan) Co., Ltd.	Subsidiary
Formosa Taffeta (Hong Kong) Co., Ltd.	Subsidiary
Formosa Taffeta (Changshu) Co., Ltd.	Subsidiary

Names of related parties	Relationship with the Company
Quang Viet Enterprise Corp.	Associate
Formosa Industries Corp.	Associate
FG INC	Other Related Party
Formosa Heavy Industries Corp.	Other Related Party
Formosa Biomedical Technology Corp.	Other Related Party
Formosa Petrochemical Corp.	Other Related Party
Formosa Asahi Spandex Corp.	Other Related Party
Formosa Technologies Corp.	Other Related Party
Formosa Plastics Corp.	Other Related Party
Chang Gung Biotechnology Corp.	Other Related Party
Nanya Technology Corp.	Other Related Party
Nan Ya Plastics Corp.	Other Related Party
Nan Ya Photonics Incorporation	Other Related Party
Yugen Yueh Co., Ltd.	Other Related Party
Yumaowu Enterprise Co., Ltd.	Other Related Party
Yu Yuang Textile Co., Ltd.	Other Related Party
Yu Maowu Complex Co., Ltd.	Other Related Party
Great King Garment Co., Ltd.	Other Related Party
Kong You Industrial Co., Ltd.	Other Related Party
Bellmart Industrial Co., Ltd.	Other Related Party
TOA Resin Corp.	Other Related Party
Formosa HA TINH (CAYMAN) LIMITED	Other Related Party

(3) Significant related party transactions

A. Operating revenue

	Years ended December 31,	
	2017	2016
Sales of goods:		
— Ultimate parent	\$ 17,705	\$ 66,729
— Subsidiaries	271,589	500,948
— Associates	372,384	324,818
— Other related parties	435,493	422,489
	<u>\$ 1,097,171</u>	<u>\$ 1,314,984</u>

Goods are sold based on the price lists in force and terms that would be available to third parties.

B. Purchases of goods

	Years ended December 31,	
	2017	2016
Purchases of goods:		
— Ultimate parent	\$ 1,745,553	\$ 1,754,464
— Subsidiaries	883,791	462,266
— Other related parties		
Formosa Petrochemical Corp.	9,606,981	9,257,909
Others	1,178,958	1,051,183
	<u>\$ 13,415,283</u>	<u>\$ 12,525,822</u>

Goods and services are purchased from parent company, subsidiaries and associates on normal commercial terms and conditions.

C. Notes and accounts receivable

	December 31, 2017	December 31, 2016
Receivables from related parties:		
— Ultimate parent	\$ 75	\$ 25,746
— Subsidiaries	52,738	46,665
— Associates	50,477	40,558
— Other related parties	104,088	93,698
	<u>\$ 207,378</u>	<u>\$ 206,667</u>

The receivables from related parties arise mainly from sale transactions. The receivables are due 45~120 days after the date of sale. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

D. Notes and accounts payable

	December 31, 2017	December 31, 2016
Payables from related parties:		
— Ultimate parent	\$ 537,314	\$ 543,606
— Subsidiaries	125,659	143,411
— Other related parties		
Formosa Petrochemical Corp.	542,953	437,545
Others	96,509	119,903
	<u>\$ 1,302,435</u>	<u>\$ 1,244,465</u>

The payables to related parties arise mainly from purchase transactions and are due 15~60 days after the date of purchase. The payables bear no interest.

E. Property transactions, investment property and other receivables

(a) The Company sold fixed assets to related parties at cost plus any necessary expense. Gain or loss is recorded as gain or loss on disposal of property, plant and equipment. Details are as follows:

	Years ended December 31,			
	2017		2016	
	Disposal proceeds	Gain (loss) on disposal	Disposal proceeds	Gain (loss) on disposal
Sale of property, plant and equipment:				
— Subsidiaries	\$ 92,305	\$ 53,807	\$ 250,619	\$ 15,868

The unrealized gain on disposal of property, plant and equipment from the transactions above amounted to \$32,816 and \$102,986 for the years ended December 31, 2017 and 2016, respectively.

(b) Rental income (shown as other income)

The Company rent out buildings on No. 319 and 329, Henan St., Douliu City, Yunlin County, and land on No. 497-1 Neilin Section and employees' dormitory to Formosa Advanced Technologies Co., Ltd. The lessee pays the Company at the beginning of every month. For the years ended December 31, 2017 and 2016, rental income amounted to \$36,883 and \$38,400, respectively.

Investment property leased to Formosa Advanced Technologies Co., Ltd. are as follows:

	Land	Building and structures	Total
<u>At January 1, 2017</u>			
Cost	\$ 6,833	\$ 764,479	\$ 771,312
Accumulated depreciation	-	(247,972)	(247,972)
	<u>\$ 6,833</u>	<u>\$ 516,507</u>	<u>\$ 523,340</u>
<u>Year ended December 31, 2017</u>			
Opening net book amount	\$ 6,833	\$ 516,507	\$ 523,340
Depreciation charge	-	(24,841)	(24,841)
Closing net book amount	<u>\$ 6,833</u>	<u>\$ 491,666</u>	<u>\$ 498,499</u>
<u>At December 31, 2017</u>			
Cost	\$ 6,833	\$ 764,479	\$ 771,312
Accumulated depreciation	-	(272,813)	(272,813)
	<u>\$ 6,833</u>	<u>\$ 491,666</u>	<u>\$ 498,499</u>

	Land	Building and structures	Total
<u>At January 1, 2016</u>			
Cost	\$ 6,833	\$ 764,479	\$ 608,704
Accumulated depreciation	-	(223,131)	(386,798)
	<u>\$ 6,833</u>	<u>\$ 541,348</u>	<u>\$ 221,906</u>
<u>Year ended December 31, 2016</u>			
Opening net book amount	\$ 6,833	\$ 541,348	\$ 548,181
Depreciation charge	-	(24,841)	(24,841)
Closing net book amount	<u>\$ 6,833</u>	<u>\$ 516,507</u>	<u>\$ 523,340</u>
<u>At December 31, 2016</u>			
Cost	\$ 6,833	\$ 764,479	\$ 771,312
Accumulated depreciation	-	(247,972)	(247,972)
	<u>\$ 6,833</u>	<u>\$ 516,507</u>	<u>\$ 523,340</u>

The fair value of the Company's investment property was based on the selling price of similar property in neighbouring areas. As of December 31, 2017 and 2016, the fair value was \$524,963 and \$688,418, respectively.

(c) Other income

Other income pertains to the Company's collections and payment transfer of utilities and disposal fee, etc. for Formosa Advanced Technologies Co., Ltd. For the years ended December 31, 2017 and 2016, other income amounted to \$13,710 and \$19,929, respectively.

(d) Other receivables

	Items	December 31, 2017	December 31, 2016
Subsidiaries			
-Formosa Taffeta Dong Nai Co., Ltd.	Purchase of raw materials and supplies and disposal of	\$ 39,699	\$ 133,410
-Formosa Taffeta Vietnam Co., Ltd.	equipment, payments made by the Company on behalf of	41,891	27,527
-Other	related party	4,883	31,143
Associates			
-Formosa Industries Corp.	Dividends receivable	90,347	-
Other related party	Payments made by the Company on behalf of related party	3,688	1,157
		<u>\$ 180,508</u>	<u>\$ 193,237</u>

(e) Acquisition of financial assets:

				<u>Year ended December 31, 2017</u>
	<u>Account</u>	<u>No. of shares</u>	<u>Object</u>	<u>Consideration</u>
Other related parties	Non-current financial assets carried at cost	600	FG INC	\$ 198,066
				<u>Year ended December 31, 2016</u>
	<u>Account</u>	<u>No. of shares</u>	<u>Object</u>	<u>Consideration</u>
Other related parties	Non-current available-for-sale financial assets	1,470,546	Nan Ya Technology Corporation	\$ 53,674

(f) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries	\$ 2,848	\$ 13,317
Associates	677	3,456
Other related parties	3,918	-
	<u>\$ 7,443</u>	<u>\$ 16,773</u>

F. Commission expenses and commissions payable

(a) The Company paid commissions for sales rendered to Formosa Taffeta (Hong Kong) Co., Ltd. equivalent to 2.5%, Details are as follows (shown as sales and marketing expenses):

		<u>Years ended December 31,</u>	
		<u>2017</u>	<u>2016</u>
Subsidiaries	\$	4,084	\$ 4,861

(b) The balances of commission payable (shown as other payables) consisted of the following:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries	\$ 1,943	\$ 1,172

G. Endorsements and guarantees provided to related parties:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Formosa Taffeta (Zhong Shan) Co., Ltd.	\$ 982,080	\$ 1,451,250
Formosa Taffeta Vietnam Co., Ltd.	1,488,000	1,612,500
Formosa Taffeta (Changshu) Co., Ltd.	1,636,800	2,096,250
Formosa Taffeta Dong Nai Co., Ltd.	4,523,520	4,344,075
Formosa HA TINH (CAYMAN) Ltd.	5,186,248	4,193,422
	<u>\$ 13,816,648</u>	<u>\$ 13,697,497</u>

(4) Key management compensation

	Years ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	\$ 27,909	\$ 22,199

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

As of December 31, 2017, the significant commitments and contingent liabilities are the outstanding letters of credit for materials and equipment purchases with various companies listed as follows:

Currency	Amount
USD	\$ 454
JPY	35,482
EUR	1,825

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

Please refer to Note 6(17) F for the distribution of 2017 earnings which was proposed by the Board of Directors on March 16, 2018.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings and short-term bills payable' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

At December 31, 2017, the Company's strategy, which was unchanged from December 31, 2016, was to maintain the gearing ratio around 14%. The gearing ratios at December 31, 2017 and 2016 were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total borrowings	\$ 12,107,192	\$ 12,119,989
Less: Cash and cash equivalents	(851,569)	(1,023,947)
Net debt	11,255,623	11,096,042
Total equity	<u>69,379,395</u>	<u>66,748,150</u>
Total capital	<u>\$ 80,635,018</u>	<u>\$ 77,844,192</u>
Gearing ratio	<u>14%</u>	<u>14%</u>

(2) Financial instruments

A. Fair value information of financial instruments

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

B. Financial risk management policies

(a) The Company's management considers economic environment, competition and market value risk to achieve the best position of investment risk, maximize the investment of excess liquidity and control the overall market risk. The Company adopts the following strategies to control financial risk:

- i. Foreign exchange risk: The Company engages in a number of foreign currency transactions. Therefore, the Company hedges risk naturally, and observes the exchange rates on a continuous and timely basis to mitigate foreign exchange risks.
- ii. Interest rate risk: The expected domestic interest rate will not change drastically. However, the Company continues to observe the movement of interest rate to prevent incurring costs due to changes in interest rate.
- iii. Cash flow risk: The Company sets up short and long term funding schedule on a regular and timely basis to ensure that all the obligations are met.
- iv. Credit risk: The Company has a stringent credit policy in place. Transactions are conducted only with counterparties with good credit conditions. Appropriate measures are also undertaken where necessary to protect the Company's credit rights and thereby mitigate credit risk.

(b) The Board of Directors is responsible for supervising normal business operations, and authorizing management to perform daily operations under acceptable risk. The internal auditor shall review reports prepared by management on a timely basis to evaluate the effectiveness of management. If

the internal auditor discovers any irregular circumstances, he or she should inform the Board of Directors immediately and perform necessary preventive measures.

C. Significant financial risks and degrees of financial risks

(a) Market risk

a. Foreign exchange risk

Some of the Company's transactions are conducted in foreign currencies, which are subject to exchange rate fluctuation. The information on foreign currency denominated assets and liabilities are as follows:

December 31, 2017			
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 57,288	29.85	\$ 1,710,047
<u>Non-monetary items</u>			
VND:NTD	4,545,840,640	0.0013	5,909,593
HKD:NTD	287,387	3.82	1,097,818
RMB:NTD	406,178	4.57	1,856,233
USD:NTD	183,934	29.85	5,490,430
December 31, 2016			
	Foreign Currency Amount (In Thousands)	Exchange Rate	Book Value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 47,701	32.28	\$ 1,539,788
<u>Non-monetary items</u>			
VND:NTD	4,423,107,975	0.0014	6,192,351
HKD:NTD	251,226	4.16	1,045,100
RMB:NTD	543,796	4.65	2,528,651
USD:NTD	160,450	32.28	5,179,326

b. The total exchange loss, including realized and unrealized arising from significant foreign exchange variation on the monetary items held by company for the years ended December 31, 2017 and 2016 amounted to \$120,816 and \$17,856, respectively.

Analysis of foreign currency market risk arising from significant foreign

exchange variation:

Year ended December 31, 2017			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 17,100	\$ -
<u>Non-monetary items</u>			
VND:NTD	1%	-	59,096
HKD:NTD	1%	-	10,978
RMB:NTD	1%	-	18,562
USD:NTD	1%	-	54,904
Year ended December 31, 2016			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 15,398	\$ -
<u>Non-monetary items</u>			
VND:NTD	1%	-	61,924
HKD:NTD	1%	-	10,451
RMB:NTD	1%	-	25,287
USD:NTD	1%	-	51,793

c. Price risk

- i. The Company is exposed to equity securities price risk because of investments held by the Company and classified on the consolidated balance sheet as available-for-sale. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- ii. The Company's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity for the years ended December 31, 2017 and 2016 would have increased/decreased by \$452,750 and \$432,667, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

d. Interest rate risk

- i. The Company's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates and variable rates expose the Company to fair value interest rate risk and cash flow interest rate risk. During the years ended December 31, 2017 and 2016, the Company's borrowings at variable rate were denominated in the NTD and USD.
- ii. At December 31, 2017 and 2016, if interest rates on NTD-denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have been \$89,640 and \$92,130 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

- i. The equity financial instruments have active markets and are transacted through a stock exchange market or over-the counter market, or with financial institutions which are all in good credit standing. Therefore, the credit risk is low. Besides, the Company's policy requires that transactions for financial assets carried at cost be conducted with counterparties that meet the specified credit rating requirement; thus, the possibility that credit risk will arise is remote.
- ii. The Company's policy requires that wholesale sales of products are made to clients with an appropriate credit review procedures. Therefore, the maximum loss arising from credit risk is equal to the book value of accounts receivable.
- iii. Loan guarantees provided by the Company are in compliance with the Company's "Procedures for Provision of Endorsements and Guarantees" and are only provided to affiliated companies of which the Company owns directly or indirectly more than 50% ownership. As the Company is fully aware of the credit conditions of these related parties and endorsed by each shareholder in proportion to their equity based on mutual investment, it has not asked for collateral for the loan guarantees provided. In the event that these related parties fail to comply with loan agreements with banks, the maximum loss to the Company is the total amount of loan guarantees as listed as follows:
- iv. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- v. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial assets in Note 6.

(c) Liquidity risk

- i. The Company's investments in equity financial instruments which have active markets are expected to be sold easily and quickly in the market at the price close to fair value. The Company's investments in equity financial instruments without active markets are exposed to liquidity risk.
- ii. Due to well-managed operations, the Company has an excellent credit in financial institutions and the money market, and has adequate working capital to meet commitments associated with receivables and payables. Therefore, no liquidity risk is expected to arise.
- iii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

		Between 1	Between 2 and	
December 31, 2017	Less than 1 year	and 2 years	5 years	Over 5 years
Short-term borrowings	\$ 7,412	\$ -	\$ -	\$ -
Short-term bills payable	1,300,000	-	-	-
Notes payable (including related parties)	375,008	-	-	-
Accounts payable (including related parties)	1,746,931	-	-	-
Other payables	837,873	-	-	-
Long-term borrowings	-	7,509,683	3,436,380	-
Financial guarantee contracts	13,816,648	-	-	-
		Between 1	Between 2 and	
December 31, 2016	Less than 1 year	and 2 years	5 years	Over 5 years
Short-term borrowings	\$ 20,556	\$ -	\$ -	\$ -
Short-term bills payable	1,000,000	-	-	-
Notes payable (including related parties)	291,030	-	-	-
Accounts payable (including related parties)	1,979,700	-	-	-
Other payables	870,750	-	-	-
Long-term borrowings	-	11,279,768	-	-
Financial guarantee contracts	13,697,497	-	-	-

- iv. The Company does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value estimation

A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Company's investment property measured at cost are provided in Note 7(2) e.

B. The table below analyses financial instruments measured at fair value, by valuation method. The different levels have been defined as follows:

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

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

Level 3: Unobservable inputs for the asset or liability.

C. The following table presents the Company's financial assets and liabilities that are measured at fair value at December 31, 2017 and 2016:

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Forward exchange contracts	\$ -	\$ 398	\$ -	\$ 398
Available-for-sale financial assets				
Equity securities	<u>44,654,582</u>	<u>620,400</u>	<u>-</u>	<u>45,274,982</u>
	<u>\$ 44,654,582</u>	<u>\$ 620,798</u>	<u>\$ -</u>	<u>\$ 45,275,380</u>
 <u>December 31, 2016</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Financial assets:				
Available-for-sale financial assets				
Equity securities	<u>\$ 42,769,641</u>	<u>\$ 497,100</u>	<u>\$ -</u>	<u>\$ 43,266,741</u>

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

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

- | | Listed shares |
|---|---------------|
| Market quoted price | Closing price |
| <p>(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques such as current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including applying a model using market information available at the balance sheet date.</p> <p>(c) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate.</p> <p>(d) The Company takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Company's credit quality.</p> | |
| <p>E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.</p> <p>F. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.</p> | |

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

In accordance with “Rules Governing the Preparation of Financial Statements by Securities Issuers”, significant transactions for the year ended December 31, 2017 are stated as follows. Furthermore, the inter-company transactions were eliminated when preparing financial statements of investees which were audited by other independent accountants. The following disclosures are for reference only.

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: Please refer to table 1.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 2.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 3.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(2), (12) and 12(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 9.

14. SEGMENT INFORMATION

None.

FORMOSA TAFFETA CO., LTD.
Provision of endorsements and guarantees to others
For the year ended December 31, 2017

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3,8)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2017 (Note 4)	Outstanding endorsement/ guarantee amount at December 31, 2017 (Note 5)	Actual amount drawn down (Note 6)	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3,8)	Provision of endorsements/ guarantees by parent company to subsidiary (Note 7)	Provision of endorsements/ guarantees by subsidiary to parent company (Note 7)	Provision of endorsements/ guarantees to the party in Mainland China (Note 7)	Footnote
0	FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	2	\$ 45,096,606	\$ 1,410,525	\$ 982,080	\$ 282,720	\$ -	1.42	\$ 90,193,213	Y	N	Y	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA VIETNAM CO., LTD.	2	45,096,606	1,567,250	1,488,000	98,141	-	2.14	90,193,213	Y	N	N	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA (CHANGSHU) CO., LTD.	3	45,096,606	2,037,425	1,636,800	329,353	-	2.36	90,193,213	Y	N	Y	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA DONG NAI CO., LTD.	2	45,096,606	4,599,520	4,523,520	2,472,112	-	6.52	90,193,213	Y	N	N	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA HA TINH (CAYMAN) LIMITED	6	45,096,606	5,273,383	5,186,248	3,903,997	-	7.48	90,193,213	N	N	N	
1	FORMOSA DEVELOPMENT CO., LTD.	PUBLIC MORE INTERNATION COMPANY LTD.	2	182,401	3,000	3,000	3,000	-	1.07	364,803	N	N	N	

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

(1)The Company is '0'.

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

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

(1)Having business relationship.

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

(3)The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

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

(5)Mutual guarantee of the trade as required by the construction contract.

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

Note 3: Fill in limit on endorsements/guarantees provided for a single party and ceiling on total amount of endorsements/guarantees provided as prescribed in the endorser/guarantor company's "Procedures for Provision of Endorsements and Guarantees", and state each individual party to which the endorsements/guarantees have been provided and the calculation for ceiling on total amount of endorsements/guarantees provided in the footnote.

Note 4: Fill in the year-to-date maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Note 5: Once endorsement/guarantee contracts or promissory notes are signed/issued by the endorser/guarantor company to the banks, the endorser/guarantor company bears endorsement/guarantee liabilities. And all other events involve endorsements and guarantees should be included in the balance of outstanding endorsements and guarantees.

Note 6: Fill in the actual amount of endorsements/guarantees used by the endorsed/guaranteed company.

Note 7: Fill in 'Y' for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

Note 8: In accordance with the Company's procedures of endorsements and guarantees, limit on the Company's total guarantee amount is 1.3 times of the Company's net assets, and limit on endorsement/guarantee to a single party is 50% of the aforementioned total amount.

FORMOSA TAFFETA CO., LTD.

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

For the year ended December 31, 2017

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2017				Footnote (Note 4)
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	Ultimate parent company	Available-for-sale financial assets - current	12,169,610	\$ 1,253,470	0.21	\$ 1,253,470	
FORMOSA TAFFETA CO., LTD.	PACIFIC ELECTRIC WIRE AND CABLE CO., LTD.	-	Available-for-sale financial assets - current	32	-	-	-	
FORMOSA TAFFETA CO., LTD.	FORMOSA PLASTICS CORPORATION	Other related party	Available-for-sale financial assets - current	640	63	-	63	
FORMOSA TAFFETA CO., LTD.	NAN YA PLASTICS CORPORATION	Other related party	Available-for-sale financial assets - current	482,194	37,563	0.01	37,563	
FORMOSA TAFFETA CO., LTD.	ASIA PACIFIC INVESTMENT CO. (APIC)	Other related party	Available-for-sale financial assets - current	10,000,000	620,400	2.35	620,400	
FORMOSA TAFFETA CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Other related party	Available-for-sale financial assets - non-current	15,421,010	1,175,081	0.52	1,175,081	
FORMOSA TAFFETA CO., LTD.	FORMOSA PETROCHEMICAL CORP.	Other related party	Available-for-sale financial assets - non-current	365,267,576	42,188,405	3.83	42,188,405	
FORMOSA TAFFETA CO., LTD.	SYNTRONIX CORPORATION	-	Financial assets measured at cost – non-current	174,441	3,236	0.45	3,236	
FORMOSA TAFFETA CO., LTD.	TOA RESIN CORPORATION LIMITED	Other related party	Financial assets measured at cost – non-current	14,400	3,000	10.00	3,000	
FORMOSA TAFFETA CO., LTD.	SHIN YUN GAS CO., LTD.	-	Financial assets measured at cost – non-current	644,230	3,099	1.20	3,099	
FORMOSA TAFFETA CO., LTD.	WK TECHNOLOGY FUND IV LIMITED	-	Financial assets measured at cost – non-current	1,926,759	263	3.17	263	
FORMOSA TAFFETA CO., LTD.	NAN YA PHOTONICS INC.	Other related party	Financial assets measured at cost – non-current	4,261,443	58,345	9.53	58,345	
FORMOSA TAFFETA CO., LTD.	FG INC	Other related party	Financial assets measured at cost – non-current	600	198,066	3.00	198,066	
FORMOSA TAFFETA (CAYMAN) LIMITED	FORMOSA HA TINH (CAYMAN) LIMITED	Other related party	Financial assets measured at cost – non-current	190,009,706	5,490,371	3.85	5,490,371	
FORMOSA DEVELOPMENT CO., LTD.	FORMOSA TAFFETA CO., LTD.	Parent company	Available-for-sale financial assets - non-current	2,293,228	71,778	0.14	71,778	
XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD.	Association of R.O.C.	-	Financial assets measured at cost – non-current	-	137	0.11	137	

FORMOSA TAFFETA CO., LTD.

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

For the year ended December 31, 2017

Table 2 Expressed in thousands of NTD
(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2017				Footnote (Note 4)
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	FORMOSA PLASTICS CORPORATION	Other related party	Available-for-sale financial assets - current	146,388	\$ 14,448	-	\$ 14,448	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA PLASTICS CORPORATION	Other related party	Available-for-sale financial assets - current	312,512	24,345	-	24,345	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	Ultimate parent company	Available-for-sale financial assets - current	15,249,000	1,570,647	0.26	1,570,647	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	FORMOSA PETROCHEMICAL CORP.	Other related party	Available-for-sale financial assets - current	1,110,000	128,205	0.01	128,205	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Other related party	Available-for-sale financial assets – non-current	8,278,215	630,800	0.28	630,800	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA PHOTONICS INC.	Other related party	Financial assets measured at cost – non-current	2,130,721	29,172	4.77	29,172	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	SYNTRONIX CORPORATION	-	Financial assets measured at cost – non-current	59,945	1,181	0.15	1,181	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	JIH SUN MONEY MARKET FUND	-	Financial assets at fair value through profit or loss - current	25,512,583	375,736	-	375,736	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	MEGA DIAMOND MONEY MARKET FUND	-	Financial assets at fair value through profit or loss - current	20,396,748	254,262	-	254,262	

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

FORMOSA TAFFETA CO., LTD.

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

For the year ended December 31, 2017

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2017		Addition (Note 3)(Note 4)		Disposal (Note 3)		Gain (loss) on disposal		Balance as at December 31, 2017	
					Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value		Number of shares	Amount
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	Available-for-sale financial assets - current	-	-	7,316,000	\$ 704,531	7,936,000	\$ 726,892	3,000	\$ 274	\$ 242	\$ 32	15,249,000	\$ 1,570,647
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Available-for-sale financial assets – non-current	-	-	15,041,215	726,491	-	-	6,763,000	523,781	248,202	275,579	8,278,215	630,800
FORMOSA TAFFETA (CAYMAN) LIMITED	FORMOSA HA TINH (CAYMAN) LIMITED	Financial assets measured at cost – non-current	-	-	171,008,736	5,316,710	19,000,970	587,072	-	-	-	-	190,009,706	5,490,371

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.

Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach NT\$300 million or 20% of paid-in capital or more.

Note 4: Beginning balance plus addition amount is not equal to balance at December 31, 2017 because of valuation in exchange rate.

FORMOSA TAFFETA CO., LTD.

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

For the year ended December 31, 2017

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

							Differences in transaction terms compared to third party transactions					
Transaction							(Note 1)		Notes/accounts receivable (payable)			
Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote (Note 2)	
FORMOSA TAFFETA CO., LTD.	QUANG VIET ENTERPRISE CO., LTD.	Associate	Sales	(\$ 372,384) (	1.45)	Pay by mail transfer 60 days after delivery	\$ -	-	Notes receivable \$ 55	-	
FORMOSA TAFFETA CO., LTD.	YUGEN YUEH CO., LTD.	Other related party	Sales	(305,466) (	1.19)	Pay 120 days after delivery	-	-	Accounts receivable 50,422	2.35	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA DONG NAI CO., LTD.	Subsidiary	Sales	(102,664) (	0.40)	60 days after monthly billings	-	-	Accounts receivable 73,603	3.44	
FORMOSA TAFFETA CO., LTD.	FORMOSA PETROCHEMICAL CORP. (FPCC)	Other related party	Purchases	9,606,981	45.06	Pay every 15 days by mail transfer	-	-	Accounts receivable 31,814	1.48		
FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	Ultimate parent company	Purchases	1,745,553	8.19	Draw promissory notes due in 2 months after inspection	-	-	Accounts payable (542,953) (	31.32)	
									Notes payable (239,552) (	13.82)	
									Accounts payable (297,761) (	17.18)	
FORMOSA TAFFETA CO., LTD.	NAN YA PLASTICS CORPORATION	Other related party	Purchases	790,453	3.71	Pay every 15 days by mail transfer	-	-	Accounts payable (73,260) (	4.23)	
FORMOSA TAFFETA CO., LTD.	FORMOSA PLASTICS CORP.	Other related party	Purchases	335,499	1.57	Pay every 15 days by mail transfer	-	-	Accounts payable (16,118) (	0.93)	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Other related party	Sales	(5,295,339) (	67.13)	60 days after monthly billings	-	-	Accounts receivable 953,005	62.92	
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA PRINTED CIRCUIT BOARD CO., LTD.	Other related party	Purchases	134,787	5.06	45 days after inspection	-	-	Accounts payable (10,929) (	3.00)	

FORMOSA TAFFETA CO., LTD.

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

For the year ended December 31, 2017

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

								Differences in transaction terms compared to third party transactions					
								Transaction (Note 1)		Notes/accounts receivable (payable)			
Purchaser/seller		Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)		Footnote (Note 2)
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.		FORMOSA TAFFETA (CHANGSHU) CO., LTD.	Associate	Sales	(\$ 365,021) (	23.15)	60 days after monthly billings	\$ -	-	Accounts receivable	120,362	55.23	
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.		FORMOSA TAFFETA CO., LTD.	Parent company	Sales	(160,962) (	10.21)	60 days after monthly billings	-	-	Accounts receivable	\$ 23,359	10.72	
FORMOSA TAFFETA VIETNAM CO., LTD.		FORMOSA INDUSTRY CO., LTD	Associate	Purchases		218,104 13.30	60 days after monthly billings	-	-	Accounts payable	(34,122) (	18.65)	
FORMOSA TAFFETA DONG NAI CO., LTD.		FORMOSA TAFFETA VIETNAM CO., LTD.	Associate	Sales	(287,418) (	7.45)	60 days after monthly billings	-	-	Accounts receivable	42,321	5.37	
FORMOSA TAFFETA DONG NAI CO., LTD.		FORMOSA TAFFETA CO., LTD.	Parent company	Sales	(626,300) (	16.23)	60 days after monthly billings	-	-	Accounts receivable	82,385	10.45	
FORMOSA TAFFETA DONG NAI CO., LTD.		QUANG VIET ENTERPRISE CO., LTD.	Associate	Sales	(115,689) (	3.00)	60 days after monthly billings	-	-	Accounts receivable	20,869	2.65	
FORMOSA TAFFETA DONG NAI CO., LTD.		FORMOSA INDUSTRY CO., LTD	Associate	Purchases		598,056 17.23	60 days after monthly billings	-	-	Accounts payable	(69,232) (	18.17)	
FORMOSA TAFFETA DONG NAI CO., LTD.		FORMOSA CHEMICALS & FIBRE CORPORATION	Ultimate parent company	Purchases		252,771 7.28	60 days after monthly billings	-	-	Accounts payable	(36,134) (	9.48)	
FORMOSA TAFFETA DONG NAI CO., LTD.		NAN YA PLASTICS CORPORATION	Other related party	Purchases		172,678 4.98	60 days after monthly billings	-	-	Accounts payable	(2,711) (	0.71)	

Note 1: If terms of related party transactions are different from third party transactions, explain the differences and reasons in the 'Unit price' and 'Credit term' columns.

Note 2: In case related-party transaction terms involve advance receipts (prepayments) transactions, explain in the footnote the reasons, contractual provisions, related amounts, and differences in types of transactions compared to third-party transactions.

Note 3: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 4: The transactions are disclosed by presenting revenues. The related transactions are not disclosed.

FORMOSA TAFFETA CO., LTD.

Receivables from related parties reaching \$100 million or 20% of paid-in capital or more

For the year ended December 31, 2017

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017 (Note 1)	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	NAN YA TECHNOLOGY CORPORATION	Other related party	\$ 953,005	5.44	\$ -	-	\$ 465,954	\$ -
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	FORMOSA TAFFETA (CHANG SHU) CO., LTD.	Associates	120,362	3.37	-	-	55,530	-

Note 1: Fill in separately the balances of accounts receivable-related parties, notes receivable-related parties, other receivables-related parties.

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

FORMOSA TAFFETA CO., LTD.
Significant inter-company transactions during the reporting period
For the year ended December 31, 2017

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction		Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	
0	FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	1	Purchases	\$ 1,745,553	Draw promissory notes due in 2 months after inspection 4.29
0	FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	1	Accounts payable	297,761	Draw promissory notes due in 2 months after inspection 0.31
0	FORMOSA TAFFETA CO., LTD.	FORMOSA CHEMICALS & FIBRE CORPORATION	1	Notes payable	239,552	Draw promissory notes due in 2 months after inspection 0.25

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

(1) Parent company is '0'.

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

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

Note 4: The amount of transactions under \$500 million are not disclosed.

FORMOSA TAFFETA CO., LTD.
Information on investees
For the year ended December 31, 2017

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December	Investment income (loss) recognized by the company for the year ended December	Footnote
				Balance as December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value	31, 2017	31, 2017	
									(Note 2(2))	(Note 2(3))	
FORMOSA TAFFETA CO., LTD.	FORMOSA DEVELOPMENT CO., LTD.	Taiwan	Handling urban land consolidation, development, rent and sale of industrial plants, residences and building	\$ 114,912	\$ 114,912	16,100,000	100.00	\$ 206,279	\$ 17,643	\$ 11,313	
FORMOSA TAFFETA CO., LTD.	FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	Taiwan	IC assembly, testing and modules	3,773,440	3,773,440	290,464,472	65.68	7,347,846	1,393,086	914,979	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA (HONG KONG) CO., LTD.	Hong Kong	Sale of spun fabrics and filament textile	1,356,862	1,356,862	-	100.00	1,092,248	89,049	89,049	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA VIETNAM CO., LTD.	Vietnam	Production, processing, further processing various yam and cotton cloth, and dyeing and finishing clothes, curtains, towels, bed covers and carpets	1,709,221	1,709,221	-	100.00	1,806,539	163,188	163,188	
FORMOSA TAFFETA CO., LTD.	QUANG VIET ENTERPRISE CO., LTD.	Taiwan	Processing and production of ready-to-wear, processing and trading of cotton cloth, and import and export of the aforementioned products	213,771	213,771	18,595,352	17.92	1,149,965	546,996	112,417	

FORMOSA TAFFETA CO., LTD.

Information on investees

For the year ended December 31, 2017

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December	Investment income (loss) recognized by the company for the year ended December	Footnote
				Balance as December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value	31, 2017	31, 2017	
									(Note 2(2))	(Note 2(3))	
FORMOSA TAFFETA CO., LTD.	SCHOELLER FTC (HONG KONG) CO., LTD.	Hong Kong	Trading of textiles	\$ 2,958	\$ 2,958	-	50.00	\$ 4,217	\$ 6,171	\$ 2,653	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA DONG NAI CO., LTD.	Vietnam	Production, processing and sale of various dyeing and finishing textiles and yarn	2,590,434	2,590,434	-	100.00	2,228,212	57,981	57,981	
FORMOSA TAFFETA CO., LTD.	FORMOSA INDUSTRIES CORPORATION	Vietnam	Synthetic fiber, spinning, weaving, dyeing and finishing and electricity generation	1,987,122	1,987,122	-	10.00	1,938,483	806,833	77,090	
FORMOSA TAFFETA CO., LTD.	FORMOSA TAFFETA (CAYMAN) LIMITED	Cayman Islands	Investments	5,675,253	5,090,180	171,028,736	100.00	5,490,420	(137)	(137)	
FORMOSA DEVELOPMENT CO., LTD.	FORMOSA ADVANCED TECHNOLOGIES CO., LTD.	Taiwan	IC assembly, testing and modules	21,119	21,119	469,500	0.11	23,622	1,393,086	1,473	
FORMOSA DEVELOPMENT CO., LTD.	PUBLIC MORE INTERNATION COMPANY LTD.	Taiwan	Employment service, manpower allocation and agency service etc	5,000	-	-	100.00	6,586	1,586	1,586	

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1)The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at December 31, 2017' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.
- (2)The 'Net profit (loss) of the investee for the year ended December 31, 2017' column should fill in amount of net profit (loss) of the investee for this period.
- (3)The 'Investment income (loss) recognised by the Company for the year ended December 31, 2017' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

FORMOSA TAFFETA CO., LTD.
Information on investments in Mainland China
For the year ended December 31, 2017

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net income of investee for the year ended December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2)	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	Production and sale of polyester and polyamide fabrics	\$ 1,402,085	(1)	\$ 1,402,085	\$ -	\$ -	\$ 1,402,085	\$ 72,999	100.00	\$ 72,999	\$ 1,635,550	\$ -	Note 3
XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD.	Import and export, entrepot trade, merchandise export processing, warehousing and design and drawing of black and white and colour graphs	15,273	(1)	15,273	-	-	15,273	(959)	100.00	(959)	6,206	-	Note 4
FORMOSA TAFFETA (CHANGSHU) CO., LTD.	Weaving and dyeing as well as post dressing of high-grade loomage face fabric	1,302,019	(2)	1,334,739	-	-	1,334,739	85,091	100.00	85,091	975,944	-	Note 5
CHANG SHU YU YUAN DEVELOPMENT. CO., LTD.	Building and selling real estate	70,788	(2)	-	-	-	-	11,436	40.78	4,427	35,008	-	Note 6

Note 1: Investment methods are classified into the following three categories:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: The amount of 'Investment income (loss) recognised by the Company for the year ended December 31, 2017 were derived from financial statements which were reviewed by independent accountants.

Note 3: The Company's paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017 and December 31, 2017 are both US\$46,400,000 (remitted out US\$46,388,800 and equipment amounted to US\$11,200).

Note 4: The Company's paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017 and December 31, 2017 are both US\$570,000.

Note 5: The Company's paid-in capital and accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017 is US\$42,000,000. Formosa Taffeta (Changshu) Co., Ltd. reduced its capital amounting to US\$900,000 and divided the housing land to establish a new company named Changshu Fushun Enterprise Management Co., Ltd. in March 2015. Thus, the original currency of paid-in capital and accumulated amount of remittance from Taiwan as of December 31, 2017 was US\$41,100,000.

Note 6: The Company was the surviving company after the consolidation of Changshu Yu Yuan Development.Co.,Ltd. and Changshu Fushun Enterprise Management Co., Ltd. Its paid-in capital is RMB\$13,592,920.

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	\$ 1,402,085	\$ 1,385,040	\$ 43,909,542
XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD.	15,273	17,015	43,909,542
FORMOSA TAFFETA (CHANGSHU) CO., LTD.	1,334,739	1,253,700	43,909,542

Note :

(1)The investment in FORMOSA TAFFETA (ZHONG SHAN) CO., LTD. approved by the Investment Commission of MOEA is US\$46,400,000.

(2)The investment in XIAMEN XIANGYU FORMOSA IMPORT & EXPORT TRADING CO., LTD. approved by the Investment Commission of MOEA is US\$570,000.

(3)The investment in FORMOSA TAFFETA (CHANG SHU) CO., LTD. approved by the Investment Commission of MOEA is US\$42,000,000, while the company reduced its capital and divided some part of housing land to Changshu Fushun Enterprise Management Co.,Ltd. Such investment is still awaiting approval by MOEA.

(4)The original currency of paid-in capital was translated at USD:TWD = 1:29.85

FORMOSA TAFFETA CO., LTD.

Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas

For the year ended December 31, 2017

Table 9

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in Mainland China	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing										
	Amount	%	Amount	%	Balance at December 31, 2017	%	Balance at December 31, 2017	Purpose	Maximum balance during the year ended December 31, 2017	Balance at December 31, 2017	Interest rate	Interest during the year ended December 31, 2017	Others						
FORMOSA TAFFETA (ZHONG SHAN) CO., LTD.	\$	23,276	0.09	\$	-	-	\$	2,616	0.12	\$	982,080	For short-tem loans from financial institutions	\$	-	\$	-	-	\$	-
FORMOSA TAFFETA (CHANGSHU) CO., LTD.		30,966	0.12		29,526	-		5,015	0.23		1,636,800	For short-tem loans from financial institutions		-		-	-		-