

YC INOX CO., LTD.

Consolidated Financial Statements for the
Years Ended December 31, 2017 and 2016
and Independent Auditors' Report

For the convenience of readers and the information purpose only, the auditors' report and the accompanying financial statements have been translated into English from 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 statement shall prevail.

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of YC INOX Co., Ltd. as of and for the year ended December 31, 2017, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard No. 10, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, YC INOX Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

YC INOX CO., LTD.

By

CHIN KER CHANG
Chairman

March 16, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
YC INOX Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of YC INOX Co., Ltd. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flow for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Valuation of inventories

As of December 31, 2017, the inventory of YC INOX Co., Ltd. and subsidiaries amounted to \$3,981,616 thousand, the accounting policy of valuation of inventories please refer to Note 4(11). YC INOX Co., Ltd. engages in manufacturing, processing and trading of stainless steel products, as the carrying amount of inventories are material; constituting 33% of the consolidated total assets, and the policy of valuation of inventories is based on the management's judgment, simultaneously because international raw material market prices frequent fluctuation affect the price of stainless steel raw materials and products, we consider the valuation of inventories a key audit matter. Our key audit procedures performed in report of the above area included the following:

- A. Assessing and testing the effectiveness of design and operation of the internal control of valuation of inventories established by the management.
- B. Testing the accuracy and completeness of the lower of cost and net realizable value.
- C. Evaluating the bases used by management in assessment of net realizable value.
- D. Performing the analytical review procedures to assess the reasonableness of valuation of inventories.

(2) Impairment assessment of trade receivable

As of December 31, 2017, the note receivable and account receivable of YC INOX Co., Ltd. and subsidiaries amounted to \$2,018,973 thousand, constituting 17% of the consolidated total assets, the accounting policy of valuation of receivable please refer to Note 4(8). Since the provision of allowance for doubtful accounts and the individual impairment of trade receivables are subject to the management's judgment, we consider the impairment allowance for doubtful accounts that are individual significant and long pass its due date a key audit matter. Our key audit procedures performed in report of the above area included the following:

- A. Assessing the estimation method of allowance for doubtful accounts established by the management, and testing the accuracy of aging of accounts receivable.
- B. Reviewing the management's report used in manages the overdue receivable, and referred historical aging and transaction record, understood account receivables that are individual significant and long pass its due date whether there is any unusual situation, as well as examining the historical recovery records, and examining the amount received in subsequent period to confirm the possibility of recovery.

Other Matters

We have also audited the parent company only financial statements of YC INOX Co., Ltd. as of and for the years ended December 31, 2017 and 2016 on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of the Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the financial Supervisory Commission of the Republic of China, and for

such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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 YC INOX Co., Ltd. and subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on YC INOX Co., Ltd. and subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are

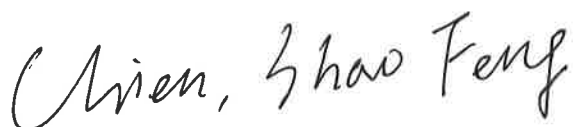
inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause YC INOX Co., Ltd. and subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within YC INOX Co., Ltd. and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



Certified Public Accountants
Taipei, Taiwan R.O.C.
March 16, 2018

YC INOX CO., LTD.

CONSOLIDATED BALANCE SHEETS

(Expressed In Thousands of New Taiwan Dollars)

	Note	December 31, 2017		December 31, 2016	
		Amount	%	Amount	%
ASSETS					
CURRENT ASSETS					
Cash	6(1)	\$ 672,929	6	\$ 472,882	4
Financial assets at fair value through profit or loss - current	6(2)	36,600	0	30,392	0
Available-for-sale financial assets - current	6(3)	0	0	25,853	0
Notes receivable - net	6(5)	127,981	1	116,746	1
Accounts receivable - net	6(6)	1,890,992	16	1,829,209	16
Other receivables	6(7)	622,724	5	552,011	5
Inventories	6(8)	3,981,616	33	4,029,127	35
Prepayments		53,918	0	26,276	0
Other current assets	8	800	0	1,547	0
Total current assets		<u>7,387,560</u>	<u>61</u>	<u>7,084,043</u>	<u>61</u>
NON-CURRENT ASSETS					
Financial assets carried at cost - non-current	6(4)	980,761	8	874,818	8
Property, plant and equipment	6(9)	3,316,499	28	2,553,194	22
Deferred income tax assets	6(22)	35,707	0	23,838	0
Prepayment for equipment		173,918	2	41,483	0
Refundable deposits		83,085	1	83,085	1
Other non-current assets	6(6)	47,271	0	878,559	8
Total other assets		<u>4,637,241</u>	<u>39</u>	<u>4,454,977</u>	<u>39</u>
TOTAL ASSETS		<u>\$12,024,801</u>	<u>100</u>	<u>\$11,539,020</u>	<u>100</u>
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Short-term loans	6(10)	\$ 2,775,150	23	\$ 2,695,702	23
Short-term bills payable	6(11)	99,966	1	299,607	3
Financial liabilities at fair value through profit or loss-current	6(2)	10	0	0	0
Notes payable		155	0	257	0
Accounts payable		364,238	3	192,505	2
Other payables	6(12)	344,375	3	347,705	3
Current income tax liabilities		133,167	1	40,161	0
Advance receipts		219,667	2	337,534	3
Other current liabilities		9,191	0	12,690	0
Total current liabilities		<u>3,945,919</u>	<u>33</u>	<u>3,926,161</u>	<u>34</u>
NON-CURRENT LIABILITIES					
Long-term loans	6(13)	400,000	3	0	0
Deferred income tax liabilities	6(22)	2,553	0	4,903	0
Net defined benefit liabilities - non-current	6(14)	117,557	1	121,725	1
Guarantee deposits		0	0	7,190	0
Total not-current liabilities		<u>520,110</u>	<u>4</u>	<u>133,818</u>	<u>1</u>
TOTAL LIABILITIES		<u>4,466,029</u>	<u>37</u>	<u>4,059,979</u>	<u>35</u>
EQUITY					
Capital stock - common stock	6(15)	4,071,307	34	4,071,307	36
Capital surplus	6(16)	1,663,578	14	1,663,578	14
Retained Earnings	6(17)				
Legal reserve		889,217	7	809,860	7
Special reserve		0	0	10,244	0
Unappropriated earnings		934,670	8	923,958	8
Other equity	6(18)	0	0	94	0
Total equity		<u>7,558,772</u>	<u>63</u>	<u>7,479,041</u>	<u>65</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 12,024,801</u>	<u>100</u>	<u>\$ 11,539,020</u>	<u>100</u>

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

YC INOX CO., LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	Note	For the Years Ended December 31			
		2017		2016	
		Amount	%	Amount	%
NET REVENUE		\$ 19,265,629	100	\$ 17,624,922	100
COST OF REVENUE	6(8)	(17,270,384)	(90)	(15,822,961)	(90)
GROSS PROFIT		1,995,245	10	1,801,961	10
OPERATING EXPENSES					
Selling and marketing		(692,293)	(4)	(633,032)	(4)
General and administrative		(211,242)	(1)	(201,715)	(1)
TOTAL OPERATING EXPENSES		(903,535)	(5)	(834,747)	(5)
OPERATING INCOME		1,091,710	5	967,214	5
NON-OPERATING INCOME AND EXPENSES					
Others gains and losses	6(19)	(72,488)	(0)	(14,482)	(0)
Finance costs	6(20)	(36,560)	(0)	(22,051)	(0)
Interest income		586	0	396	0
Rent income		15	0	0	0
Dividend income		0	0	250	0
Total Non-Operating Income and Expenses		(108,447)	0	(35,887)	(0)
INCOME BEFORE INCOME TAX		983,263	5	931,327	5
INCOME TAX EXPENSE	6(22)	(167,075)	(1)	(137,764)	(1)
NET INCOME		816,188	4	793,563	4
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation	6(14)	(3,578)	(0)	(5,782)	(0)
Income tax benefit (expense) related to items that will not be reclassified subsequently	6(22)	50	0	983	0
Items that may be reclassified subsequently to profit or loss:					
Unrealized gains(losses) on available-for-sale financial assets		(94)	(0)	10,338	0
Other comprehensive income for the year, net of income tax		(3,622)	(0)	5,539	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		\$812,566	4	\$799,102	4
NET INCOME ATTRIBUTED TO					
Owners of the parent		\$ 816,188	4	\$ 793,563	4
Non-controlling interests.		0	0	0	0
		\$ 816,188	4	\$ 793,563	4
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO					
Owners of the parent		\$ 812,566	4	\$ 799,102	4
Non-controlling interests.		0	0	0	0
		\$ 812,566	4	\$ 799,102	4
EARNINGS PER SHARE	6(23)				
Basic earnings per share		\$ 2.00		\$ 1.95	
Diluted earnings per share		\$ 2.00		\$ 1.94	

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

YC INOX CO., LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed In Thousands of New Taiwan Dollars)

Items	Capital Stock		Retained Earnings			Other Equity		Total
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Gains(Losses) on Available-for-sale Financial Assets		
BALANCE, JANUARY 1, 2016	\$ 3,701,189	\$ 1,848,637	\$ 756,744	\$ -	\$ 753,732	\$ 10,244	\$ 7,050,058	
Appropriation and distribution of 2015 earnings								
Legal reserve			53,116		(53,116)		0	
Special reserve				10,244	(10,244)		0	
Cash dividends					(370,119)		(370,119)	
Stock dividends	185,059				(185,059)		0	
Stock dividends from capital surplus	185,059	(185,059)			793,563		0	
Net income in 2016					(4,799)	10,338	793,563	
Other comprehensive income in 2016							5,539	
BALANCE, DECEMBER 31, 2016	4,071,307	1,663,578	809,860	10,244	923,958	94	7,479,041	
Appropriation and distribution of 2016 earnings								
Legal reserve			79,357		(79,357)		0	
Cash dividends					(732,835)		(732,835)	
Reversal of special reserve				(10,244)	10,244		0	
Net income in 2017					816,188		816,188	
Other comprehensive income in 2017					(3,528)	(94)	(3,622)	
BALANCE, DECEMBER 31, 2017	\$ 4,071,307	\$ 1,663,578	\$ 889,217	\$ -	\$ 934,670	\$ -	\$ 7,558,772	

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

YC INOX CO., LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed In Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES :		
Income before income tax	\$ 983,263	\$ 931,327
Adjustments for:		
Depreciation	199,896	200,113
Finance costs	36,560	22,051
Interest income	(586)	(396)
Dividend income	0	(250)
Loss(Gain) on disposal of property, plant and equipments	7,938	4,473
Property, plant and equipments reclassified to expenses	0	3
Gains (losses) on disposal of investments	(4,909)	(805)
Changes in operating assets and liabilities:		
Changes in operating assets		
(Increase) Decrease in financial assets held for trading	(6,208)	27,741
(Increase) Decrease in notes receivable	(11,235)	(49,798)
(Increase) Decrease in accounts receivable	(61,783)	(336,802)
(Increase) Decrease in other receipts	(70,713)	(160,977)
(Increase) Decrease in inventories	42,368	(236,618)
(Increase) Decrease in prepayments	(27,642)	(15,684)
(Increase) Decrease in other current assets	747	(747)
Changes in operating liabilities		
Increase (Decrease) in financial liabilities held for trading	10	(2,794)
Increase (Decrease) in notes payable	(102)	(114)
Increase (Decrease) in accounts payable	171,733	(1,545)
Increase (Decrease) in other payables	5,672	81,512
Increase (Decrease) in advance receipts	(117,867)	122,269
Increase (Decrease) in other current liabilities	(3,499)	(39,679)
Increase (Decrease) in net defined benefit liabilities	(7,746)	(48,249)
Cash generated from operations	1,135,897	495,031
Interest received	586	396
Dividend received	0	250
Interest paid	(36,127)	(21,988)
Income tax paid	(88,238)	(124,861)
Net cash generated from (used in) operating activities	1,012,118	348,828
CASH FLOWS FROM INVESTING ACTIVITIES :		
Proceeds from disposal of available-for-sale financial assets	30,668	6,699
Acquisitions of financial assets carried at cost -non-current	(105,943)	(148,916)
Acquisitions of property, plant and equipment	(316,762)	(837,480)
Proceeds from disposal of property, plant and equipment	38,250	13,632
Refundable deposits refunded (paid)	0	(58,061)
Increase in other non-current assets	(2,944)	(2,100)
Decrease in other non-current assets	4,800	8,800
Decrease in prepayments for equipment	78	0
Net cash generated from (used in) investing activities	(351,853)	(1,017,426)
CASH FLOW FROM FINANCING ACTIVITIES :		
Increase (Decrease) in short-term loans	79,448	1,065,977
Increase (Decrease) in short-term bills payable	(199,641)	199,638
Increase in long-term loans	400,000	0
Payment in long-term loans	0	(435,867)
Guarantee deposits received (refunded)	(7,190)	(970)
Cash dividends	(732,835)	(370,119)
Net cash generated from (used in) financing activities	(460,218)	458,659
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	200,047	(209,939)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	472,882	682,821
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 672,929</u>	<u>\$ 472,882</u>

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

YC INOX CO., LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, UNLESS OTHERWISE STATED)

1. ORGANIZATION AND OPERATIONS

YC INOX Co., Ltd (the “Company”) was incorporated on January 31, 1973 under the provisions of the Company Act of the Republic of China. The Company engages in the manufacturing, processing and trading of stainless steel pipe, and cutting processing and trading of stainless steel plate and stainless steel coil. The Company’s stocks was listed on the Taiwan Stock Exchange since September, 2001.

2. THE AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated 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 (“IFRSs”) as endorsed by the Financial Supervisory Commission (“FSC”)

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have a significant effect on the Company and its subsidiaries’ accounting policies.

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

The following IFRSs as endorsed by the FSC should be adopted by the Company starting 2018:

<u>New Standards, Interpretations and Amendments</u>		<u>IASB Effective Date</u>
Amendment to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018
Amendment to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amendment to IFRS 15	Clarifications to IFRS 15	January 1, 2018
Amendment to IAS 7	Disclosure Initiative	January 1, 2017
Amendment to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Amendment to IAS 40	Transfers of Investment Property	January 1, 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Amendments to IFRS	Improvements to IFRSs 2014- 2016	Note

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

Except for the following items, base on the Company's assessments, the adoption of aforementioned standards or interpretations will not have a significant effect on the its financial position and financial performance. The related impact will be disclosed when the Company completes the evaluation.

A. IFRS 9 "Financial Instruments"

All recognized financial assets currently in the scope of IAS 39, "Financial Instruments: Recognition and Measurement," will be subsequently measured at either the amortized cost or the fair value.

For the invested debt instruments, if the contractual cash flows that are solely for payments of principal and interest on the principal amount outstanding, the classification and measurement requirements are stated as follows:

- a) If the objective of business model is to hold the financial asset to collect the contractual cash flows, such assets are measured at the amortized cost. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment and the impairment loss or reversal of impairment loss should be recognized in profit and loss.
- b) If the objective of business model is to hold the financial asset both to collect the contractual cash flows and to sell the financial assets, such assets are measured at fair value through other comprehensive income (FVTOCI) and are continuously assessed for impairment. Interest revenue should be recognized in profit or loss by using the effective interest method. A gain or loss on a financial asset measured at fair value through other comprehensive income should be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When such financial asset is derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

The other financial assets which do not meet the aforementioned criteria should be measured at the fair value through profit or loss (FVTPL). However, the entity may irrevocably designate an investment in equity instruments that is not held for trading as measured at FVTOCI. All relevant gains and losses shall be recognized in other comprehensive income, except for dividends which are recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

IFRS 9 adds a new expected loss impairment model to measure the impairment of financial assets. A loss allowance for expected credit losses should be recognized on financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income. If the credit risk on a financial instrument has not increased significantly since initial recognition, the loss allowance for

that financial instrument should be measured at an amount equal to 12 month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition and is not deemed to be a low credit risk, the loss allowance for that financial instrument should be measured at an amount equal to the life time expected credit losses. A simplified approach is allowed for accounts receivables and the loss allowance could be measured at an amount equal to lifetime expected credit losses.

The Company elects not to restate prior reporting period when applying the requirements for the classification, measurement and impairment of financial assets and financial liabilities under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application. The anticipated impact on measurement categories, carrying amount and related reconciliation for each class of the Company's financial assets and financial liabilities when retrospectively applying IFRS 9 on January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Carrying Amount as of January 1, 2018	Note
Financial assets carried at cost	\$ 980,761	(\$ 980,761)	\$ 0	(a)
FVTOCI	0	1,009,464	1,009,464	(a)
Total effect on assets	<u>\$ 980,761</u>	<u>\$ 28,703</u>	<u>\$ 1,009,464</u>	
Other equity	\$ 0	\$ 28,703	\$ 28,703	(a)
Total effect on equity	<u>\$ 0</u>	<u>\$ 28,703</u>	<u>\$ 28,703</u>	

(a) As equity investments previously classified as financial assets carried at cost under IAS 39 are remeasured at fair value under IFRS 9.

B. IFRS 15 "Revenue from Contracts with customers"

IFRS 15 "Revenue from Contracts with customers," will supersede IFRS11 "Construction Contracts," IAS 18 "revenue," and a number of revenue-related interpretations.

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

Step 1 : Identify the contract with the customer;

Step 2 : Identify the performance obligations in the contract;

Step 3 : Determine the transaction price;

Step 4 : Allocate the transaction price to the performance obligations in the contracts; and

Step 5 : Recognize revenue when the entity satisfies a performance obligation.

The Company elects only to retrospectively apply IFRS 15 to contracts that were not completed on January 1, 2018 and elects not to restate prior reporting period with the cumulative effect of the initial application recognized at the date of initial application. The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Carrying Amount as of January 1, 2018
Advance receipts	\$ 219,667	(\$ 219,667)	\$ 0
Contract liability - current	0	219,667	219,667
Total effect on liabilities	\$ 219,667	\$ 0	\$ 219,667

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

The following are the assessment of 2018 Taiwan-IFRSs, interpretations and amendments issued by IASB but not yet endorsed by the FSC:

<u>New Standards, Interpretations and Amendments</u>		<u>IASB Effective Date</u>
Amendment to IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 16	Leases	January 1, 2019
IFRS 17	Insurance contracts	January 1, 2021
Amendment to IFRS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS	Improvements to IFRSs 2015- 2017	January 1, 2019

Except for the following, base on the Company's assessments, the adoption of aforementioned standards or interpretations will not have a significant effect on the its financial position and financial performance. The related impact will be disclosed when the Company completes the evaluation.

A. IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations. Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for both the principal and interest portion of the lease liability are classified within financing activities. IFRS 16 is expected to have no significant impact on the accounting treatment for the Company being a lessor.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards, International Accounting Standards, Interpretations as well as related guidance translated by the Accounting Research and Development Foundation.

(2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

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

B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements

- (a) All subsidiaries are included in the Company's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Company obtains control of the subsidiaries and ceases when the Company loses control of the subsidiaries.
- (b) Intra-company transactions, balances, and unrealized gains or losses are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Company loses control of a subsidiary, the Company remeasures any investments retained in the former subsidiary at its fair value. The fair value is regarded as the fair value on initial recognition of a financial assets or the cost on

initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Company loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Basis for preparation of consolidated financial statements

Name of investor	Name of subsidiary	Main business activities	Ownership(%)	
			December 31, 2017	December 31, 2016
The Company	Ji-mao investment Corporation, Ltd (Ji-mao)	Investment	100%	100%

C. Subsidiaries not included in the consolidated financial statement: None

D. Subsidiaries that have non-controlling interests that are material to the Company: None

(4) Foreign currency translation

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

B. 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.

C. 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.

D. 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.

E. All foreign exchange gains and losses are presented in the statement of comprehensive income within ‘other gains and losses’.

(5) Classification of current and non-current items

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

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

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

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

(6) 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 categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- (a) Hybrid (combined) contracts; or
- (b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- (c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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, designated at initial recognition as financial assets at fair value through profit or loss using settlement date accounting.

C.Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured and stated at fair value, and any changes in the fair value are recognized in profit or loss.

D.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 listed market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are recognized in a separate line item as financial assets carried 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 settlement 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 amortized cost using the effective interest method, less provision for impairment, except for short-term accounts receivable when the effect of discounting is immaterial.

(9) Impairment of financial assets

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Company uses to determine whether there is objective evidence of impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
 - (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 amortized cost

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

(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 through the use of an impairment allowance account.

(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 Company neither transfers nor retains substantially all risks and rewards of the financial asset, however, 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 progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- 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. 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 land improvements are 10 years, buildings are 10~35 years, machinery and equipment are 3~15 years, transportation equipment are 8 years, and others are 1~20 years.

(13) Leases

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

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

(14) 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 recognizing impairment loss for an asset in prior years no longer exist, 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.

(15) Borrowings cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, should be capitalised. Capitalisation should cease when substantially all of the activities necessary to prepare the asset for its intended use or sale are complete. Other borrowing costs are recognized as an expense.

(16) Employee benefits

A. Employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services 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. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Company uses interest rates of government bonds (at the balance sheet date) instead.

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

iii. Past-service costs are recognized immediately in profit or loss.

C. Employees' and directors' remuneration

Employees' and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' and directors' remuneration are different from the actual distributed amounts as resolved by the stockholders at their stockholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates.

(17) 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, 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 realised or the deferred income tax liability is settled.

D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts

and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F.A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures, employees' training costs 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 utilized.

(18) Revenue recognition

A.The Company manufactures and sells stainless steel products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods should be recognized when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B.Dividend income from investments is recognized when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

C.Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(19) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

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

The preparation of these consolidated financial statements requires management to make critical judgement in applying 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) Impairment assessment of tangible and intangible assets (excluding goodwill)

Assessing impairment based on its subjective judgement and determines the separate cash flow of specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Company strategy might cause material impairment on assets in the future.

(2) Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable 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 realisable 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 \$3,981,616 thousand.

(3) Impairment assessment of financial assets without active markets

When there is an impairment indication that a financial instrument is impaired so the carrying amount of such investment may not be recoverable, the Company would assess the impairment loss of the investment accordingly. For a financial asset without an active market, the Company assesses its impairment based on the present value of estimated future cash flows from the expected cash dividends and disposal value discounted using the market rate of return at the balance sheet date for a similar financial instrument to determine its recoverable amount as well as by analysing the reasonableness of the related assumptions used.

As of December 31, 2017, the carrying amount of financial assets measured at cost was \$980,761 thousand.

(4) Realisability of deferred income tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Assessment of the realisability of deferred income tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.

(5) Calculation of defined benefit liabilities

When calculating the present value of defined benefit obligations, the Company must apply

judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and expected rate of return on plan assets. Any changes in these assumptions could significantly impact the carrying amount of defined benefit obligations.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) CASH

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and petty cash	\$1,201	\$1,438
Checking accounts and demand deposits	671,728	471,444
Total	<u>\$672,929</u>	<u>\$472,882</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.

B. Please refer to Note 8 for cash pledged as collateral.

(2) FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS-CURRENT

<u>Items</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Financial assets held for trading		
Listed stocks	\$48,333	\$28,544
Valuation adjustment	(11,733)	(6,144)
Subtotal	36,600	22,400
Non-hedging derivatives		
Exchange contracts futures	0	7,992
Total	<u>\$36,600</u>	<u>\$30,392</u>
Financial liabilities held for trading		
Non-hedging derivatives		
Exchange contracts futures	<u>\$10</u>	<u>\$0</u>

A. The Company's financial assets or liabilities held for trading recognized net loss of \$686 thousand and \$7,377 thousand for the year periods ended December 31, 2017 and 2016, respectively.

B. Outstanding forward exchange contracts consisted of the following:

<u>December 31, 2017</u>	<u>Contract Amount</u>		<u>Contract Period</u>
	(Notional Principal)		
Exchange contracts futures			
Sell JPY/Buy USD	JPY	180,000 thousand	2017.11.15~2018.02.14
December 31, 2016			
Exchange contracts futures			
Sell JPY/Buy NT	JPY	238,000 thousand	2016.10.19~2017.02.10
Sell EUR /Buy USD	EUR	390 thousand	2016.09.09~2017.02.24

The Company entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet

the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

C.The Company has no financial assets at fair value through profit or loss pledged to others.

(3) AVAILABLE-FOR-SALE FINANCIAL ASSETS

Items	December 31, 2017	December 31, 2016
OTC stocks	\$0	\$25,759
Valuation adjustment	0	94
Total	\$0	\$25,853

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

(4) FINANCIAL ASSETS CARRIED AT COST-NON-CURRENT

Items	December 31, 2017	December 31, 2016
Non-publicly traded stocks	\$980,761	\$874,818
Accumulated impairment	0	0
Total	\$980,761	\$874,818

A.Based on the Company’s intention, its stocks should be classified as available-for-sale financial assets. However, as the investments are not traded in active market, and no sufficient industry and financial information can be obtained, the fair value of the investments cannot be measured reliably. Thus, the Company classified those investments as ‘financial assets measured at cost’.

B.The Company has no financial assets measured at cost pledged to others.

(5) NOTES RECEIVABLE

	December 31, 2017	December 31, 2016
Notes receivable	\$127,981	\$116,746
Less: allowance for doubtful receivables	0	0
Total	\$127,981	\$116,746

(6) ACCOUNTS RECEIVABLE

	December 31, 2017	December 31, 2016
Accounts receivable	\$1,891,683	\$1,830,745
Less: allowance for doubtful receivables	(691)	(1,536)
Total	\$1,890,992	\$1,829,209

	December 31, 2017	December 31, 2016
Overdue receivable	\$3,782	\$3,782
Less: allowance for doubtful receivables	(3,782)	(3,782)
Total	\$0	\$0

A. The ageing analysis of accounts receivable is as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Neither past due nor impaired	\$1,822,529	\$1,677,091
Past due but not impaired		
Past due within 30 days	65,404	141,003
Past due 31-90 days	3,059	11,115
Past due 91-180 days	0	0
Total	<u>\$1,890,992</u>	<u>\$1,829,209</u>

The credit standard is based on trading volume, capital amount, and operating conditions. The credit quality of accounts receivable that were neither past due nor impaired was good.

B. Movement analysis of financial assets that were impaired is as follows:

	<u>Individually</u>	<u>Collectively</u>	<u>Total</u>
	<u>Provision</u>	<u>Provision</u>	<u>Provision</u>
Balance at January 1, 2017	\$3,782	\$1,536	\$5,318
Provision for impairment	0	0	0
Write-offs during the period	0	(845)	(845)
Balance at December 31, 2017	<u>\$3,782</u>	<u>\$691</u>	<u>\$4,473</u>

	<u>Individually</u>	<u>Collectively</u>	<u>Total</u>
	<u>Provision</u>	<u>Provision</u>	<u>Provision</u>
Balance at January 1, 2016	\$6,169	\$594	\$6,763
Provision for impairment	0	942	942
Write-offs during the period	(2,387)	0	(2,387)
Balance at December 31, 2016	<u>\$3,782</u>	<u>\$1,536</u>	<u>\$5,318</u>

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

(7) TRANSFERS OF FINANCIAL ASSETS

The Company entered into an agreement with bank to sell its accounts receivable. Under the agreement, the Company is not required to bear uncollectible risk of the underlying accounts receivable, the burden of losses caused by the commercial disputes only, and the Company has transferred the receivables does not have any continuing involvement. The Company has derecognized the accounts receivable. As of December 31, 2017 and 2016, the outstanding accounts receivable sold to bank were as follow :

<u>December 31, 2017</u>			
<u>Purchaser</u>	<u>Sold</u>	<u>Amount advanced</u>	<u>Amount retained</u>
Fubon Bank	USD 17,718 thousand	USD 0 thousand	USD 17,718 thousand
Fubon Bank	EUR 424 thousand	EUR 381 thousand	EUR 43 thousand

December 31, 2016

Purchaser	Sold	Amount advanced	Amount retained
Fubon Bank	USD 13,371 thousand	USD2,499 thousand	USD10,872 thousand
Fubon Bank	EUR 553 thousand	EUR 497 thousand	EUR 56 thousand

(8) INVENTORIES

	December 31, 2017	December 31, 2016
Finished goods (including merchandise)	\$2,091,943	\$2,241,227
Work in process	81,205	62,163
Semi-finished goods	291,932	247,556
Raw materials	1,437,378	1,430,741
Supplies	79,158	47,440
Carrying amount	\$3,981,616	\$4,029,127

A. Inventory related operating costs of December 31, 2017 and 2016, respectively are listed as below:

	Years ended December 31	
	2017	2016
Cost of goods sold	\$17,338,323	\$16,094,724
Loss(Gain) on physical inventory	23	(341)
Inventory disposal	10,427	8,640
Scrap sales	(112,089)	(95,862)
Loss for value declined (Gain from value recover)	33,700	(184,200)
Total	\$17,270,384	\$15,822,961

Gain from value recovery in 2016 results mainly from the increase in price of raw materials.

B. No inventories held by the Company were pledged to others.

(9) PROPERTY, PLANT AND EQUIPMENT

	January 1, 2017	Additions	Disposals	Reclassifications	December 31, 2017
<u>Cost</u>					
Land	\$1,170,362	\$829,432	\$0	\$0	\$1,999,794
Land improvements	10,533	0	0	0	10,533
Buildings	786,982	10,072	0	13,747	810,801
Machinery and equipment	1,954,636	38,629	(11,872)	0	1,981,393
Transportation equipment	142,513	25,817	(64,487)	0	103,843
Office equipment	76,549	1,779	(377)	0	77,951
Other equipment	299,226	37,386	(2,012)	0	334,600
Construction in progress and equipment under acceptance	13,747	66,274	0	(13,747)	66,274
	4,454,548	\$1,009,389	(\$78,748)	\$0	5,385,189

	January 1, 2017	Additions	Disposals	Reclassifications	December 31, 2017
<u>Accumulated depreciation</u>					
Land improvements	3,220	\$1,053	\$0	\$0	4,273
Buildings	330,516	37,933	0	0	368,449
Machinery and equipment	1,323,813	117,286	(11,626)	0	1,429,473
Transportation equipment	25,569	15,911	(18,754)	0	22,726
Office equipment	48,268	7,860	(377)	0	55,751
Other equipment	169,968	19,853	(1,803)	0	188,018
	<u>1,901,354</u>	<u>\$199,896</u>	<u>(\$32,560)</u>	<u>\$0</u>	<u>2,068,690</u>
Net book amount	<u>\$2,553,194</u>				<u>\$3,316,499</u>
	January 1, 2016	Additions	Disposals	Reclassifications	December 31, 2016
<u>Cost</u>					
Land	\$1,170,362	\$0	\$0	\$0	\$1,170,362
Land improvements	8,533	2,000	0	0	10,533
Buildings	778,637	8,345	0	0	786,982
Machinery and equipment	1,876,128	82,493	(6,079)	2,094	1,954,636
Transportation equipment	118,008	54,193	(29,688)	0	142,513
Office equipment	72,813	5,445	(1,709)	0	76,549
Other equipment	281,028	24,743	(6,545)	0	299,226
Construction in progress and equipment under acceptance	2,094	13,747	0	(2,094)	13,747
	<u>4,307,603</u>	<u>\$190,966</u>	<u>(\$44,021)</u>	<u>\$0</u>	<u>4,454,548</u>
	January 1, 2016	Additions	Disposals	Reclassifications	December 31, 2016
<u>Accumulated depreciation</u>					
Land improvements	2,217	\$1,003	\$0	\$0	3,220
Buildings	290,579	39,937	0	0	330,516
Machinery and equipment	1,212,152	117,736	(6,075)	0	1,323,813
Transportation equipment	22,331	16,484	(13,246)	0	25,569
Office equipment	41,717	8,260	(1,709)	0	48,268
Other equipment	158,161	16,693	(4,886)	0	169,968
	<u>1,727,157</u>	<u>\$200,113</u>	<u>(\$25,916)</u>	<u>\$0</u>	<u>1,901,354</u>
Net book amount	<u>\$2,580,446</u>				<u>\$2,553,194</u>

- A. The significant part of the Company's buildings includes main plants, and the related depreciation is calculated using the estimated useful lives of 10-35 years.
- B. Interest capitalization amounted to \$77 thousand and \$47 thousand for the years ended December 31, 2017 and 2016, respectively, and the range of interest rates is 0.70%~1.01% and 0.73%~1.13% for the years ended December 31, 2017 and 2016, respectively.
- C. The Company's land meant for 75-1, 75-2 (2,044m²) located at Jiumei Section, Xizho Township, Changhua County and land meant for Lot 115 (171 m²), 115-1 and 115-2 (3,218 m²), and 116(120 m²) located at Xinguan Section, Puxin Township, it is zoned for

agriculture and ranch but used for a parking lot and finished goods storage, and delivery loading/unloading area ; moreover, the ownership to the lot cannot be transferred by law temporarily; therefore, it is registered in the name of Mr. G.Y. Chang, General manager of the Company. The said six lots of land are used as collateral for a mortgage loan for an amount of \$40,000 thousand.

D.Please refers to Note 8 for property, plant and equipment pledged as collateral.

(10) SHORT-TERM LOANS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unsecured bank loans		
Material purchase	\$1,496,598	\$1,447,935
Exporting	878,552	747,767
Fiduciary loans	400,000	500,000
Net	<u>\$2,775,150</u>	<u>\$2,695,702</u>
Range of interest rates	<u>0.005%~2.8%</u>	<u>0.05%~2.24%</u>

(11) SHORT-TERM BILLS PAYABLE

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Short-term bills payable	\$100,000	\$300,000
Less: Unamortized discounts	(34)	(393)
Net	<u>\$99,966</u>	<u>\$299,607</u>
Range of interest rates	<u>0.78%</u>	<u>0.65%~0.75%</u>

(12) OTHER PAYABLE

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Salary and bonus payable	\$153,441	\$147,951
Accrued employees', and directors' remuneration	74,011	70,100
Payable on construction and equipment	5,090	14,525
Commissions payable	15,299	19,508
Other payable -others	96,534	95,621
Total	<u>\$344,375</u>	<u>\$347,705</u>

(13) LONG-TERM LOANS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Credit loans :	\$400,000	\$0
Less : Current portion	(0)	(0)
Long-term loans	<u>\$400,000</u>	<u>\$0</u>
Range of interest rates	<u>1.19%~1.20%</u>	<u>NA</u>

A. The Company's loan commitment is as follow:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Drawing amount	\$3,275,150	\$2,995,702
Remaining amount	12,995,650	12,305,548
	<u>\$16,270,800</u>	<u>\$15,301,250</u>

(14) PENSION

A. Defined benefit plans

(a) The Company have a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 5% 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.

(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	\$197,913	\$195,258
Fair value of plan assets	(79,886)	(73,008)
Net liability in the balance sheet	118,027	122,250
Booked as other payable	(470)	(525)
Booked as defined benefit liabilities	<u>\$117,557</u>	<u>\$121,725</u>

(c) Changes in present value of funded obligations are as follows:

Present value of defined benefit obligations	<u>2017</u>	<u>2016</u>
At January 1	\$195,258	\$189,368
Current service cost	653	742
Interest expense	2,385	2,779
Remeasurements:		
Actuarial loss (gain) arising from experience adjustments	(11,702)	374
changes in demographics assumptions	(67)	130
changes in financial assumptions	15,134	5,338
Benefits paid	(3,748)	(3,473)
At December 31	<u>\$197,913</u>	<u>\$195,258</u>

(d) Changes in fair value of plan assets are as follows:

	2017	2016
Fair value of plan assets		
At January 1	\$73,008	\$24,651
Interest income	898	357
Remeasurements:		
Return on plan assets	(213)	60
Contributions from employer	9,941	51,413
Benefits paid	(3,748)	(3,473)
At December 31	<u>\$79,886</u>	<u>\$73,008</u>

(e) Changes in present value of defined benefit obligations are as follows:

	2017	2016
Net defined benefit liability		
At January 1	\$122,250	\$164,717
Current service cost	653	742
Net interest expense of net defined benefit liability	1,487	2,422
Remeasurements:		
Actuarial loss (gain) arising from experience adjustments	(11,702)	374
changes in demographics assumptions	(67)	130
changes in financial assumptions	15,134	5,338
Return on plan assets	213	(60)
Contributions from employer	(9,941)	(51,413)
At December 31	<u>\$118,027</u>	<u>\$122,250</u>

(f) Amounts of expenses recognized in comprehensive income statements are as follows:

	2017	2016
Current service costs	\$653	\$742
Net interest expense	1,487	2,422
Components of defined benefit costs recognized in profit or loss	<u>2,140</u>	<u>3,164</u>
Remeasurements:		
Actuarial loss (gain) arising from experience adjustments	(11,702)	374
changes in demographics assumptions	(67)	130
changes in financial assumptions	15,134	5,338
Return on plan assets	213	(60)
Components of defined benefit costs recognized in other comprehensive income	<u>3,578</u>	<u>5,782</u>
Total	<u>\$5,718</u>	<u>\$8,946</u>

The pension costs of the aforementioned defined benefit plans were recognized in profit or loss by the following categories:

	2017	2016
Cost of revenue	\$1,517	\$2,199
Selling and marketing expenses	162	267
General and administrative expenses	461	698
	<u>\$2,140</u>	<u>\$3,164</u>

(g)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 losses, national treasury to make up. The company does not have any right participate operation and management of the fund. The constitution of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilization Report published by the government.

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

	2017	2016
Discount rate used in determining present values	1.00%	1.25%
Future salary increase rate	2.50%	2.00%

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

The sensitivity of defined benefit obligation to changes in actuarial assumptions is set out below:

	Discount rate		Future salary increase rate	
	Increase	Decrease	Increase	Decrease
Effect of defined benefit obligation present value	0.25%	0.25%	0.25%	0.25%
December 31, 2017	<u>(\$5,266)</u>	<u>\$5,479</u>	<u>\$5,384</u>	<u>(\$5,202)</u>
December 31, 2016	<u>(\$5,343)</u>	<u>\$5,565</u>	<u>\$5,509</u>	<u>(\$5,318)</u>

The sensitivity analysis disclosed above is based on changing one assumption while holding all other assumptions constant. In practice, changes in some of assumptions may be correlated. The same method has been applied as for calculating the net pension liability recognized in the Balance Sheet.

(i)Expected contributions to the defined benefit pension plans of the Company in 2018 are \$6,076 thousand.

(j)As of December 31, 2017, the weighted average duration of the defined benefit obligation is 10years.

Expected maturity analysis of pension payments as follows:

Less than 1 year	\$10,064
1 to 2 years	5,142
2 to 5 years	31,028
Over 5 years	171,354
	<u>\$217,588</u>

B. Defined contribution plans

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

(b) The net pension costs recognized under the defined contribution plan for the year periods ended December 31, 2017 and 2016 were \$21,270 thousand and \$20,491 thousand respectively.

(15) CAPITAL STOCK

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Authorized shares (in thousands)	460,000	460,000
Authorized capital	\$4,600,000	\$4,600,000
Issued and paid shares (in thousands)	407,131	407,131
Issued capital	\$4,071,307	\$4,071,307

On June 15, 2016, the Company’s stockholders’ meeting adopted a resolution to capitalize retained earnings and capital surplus of \$185,059 thousand, respectively. The amount of capitalization had been approved by FSC and had been registered on August 9, 2016.

(16) CAPITAL SURPLUS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Share issuance in excess of par value	\$1,663,578	\$1,663,578

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 capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(17) RETAINED EARNINGS

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The Company may then appropriate or reverse a certain amount as special reserve according to the demand for the business or relevant regulations. After the distribution of earnings, the remaining earnings and prior year's undistributed earnings may be appropriated according to a resolution of the Board of Directors adopted in the shareholders' meeting.
- B. The Company's dividend policy subject to current and future development plan, take into consideration the Company's investment environment, capital demand, market competition situation, shareholders' benefits, and etc., the amount of bonus distributed to shareholders' shall be no less than 50% of the distributable earnings for the current period, however, if the amount of bonus distributed to shareholders is lower than 0.5 per share, it may be reserved and not distributed. Since the Company is in a conventional industry at the steady stage of its business, distribution of earnings shall be made preferably by way of cash dividend. Distribution of earnings may also be made by way of stock dividend, provided however, the ratio for cash dividend shall not less than 20% of total distribution.
- C. Except for covering accumulated deficit, increasing capital or payment of cash in proportion to ownership percentage, the legal reserve shall not be used for any other purpose. The amount capitalized or the cash payment shall be limited to the portion of legal reserve which exceeds 25% of the paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land, and reversed over the use period if the assets are investment property other than land.
- E. The appropriations of 2016 and 2015 earnings have been approved by the Company's shareholders in its meetings held on June 15, 2017 and on June 15, 2016, respectively.

	2016		2015	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$79,357		\$53,116	
Special reserve	0		10,244	
Cash Dividend	732,835	\$1.8	370,119	\$1
Stock dividends	0	0	185,059	0.5
Total	\$812,192		\$618,538	

(18) OTHER EQUITY

	2017	2016
Unrealized Gains/(Losses) on Available-for-sale financial assets		
Balance at January 1	\$94	(\$10,244)
Changes in fair value of available-for-sale financial assets	(94)	10,338
Balance at December 31	\$0	\$94

(19) OTHER GAINS AND LOSSES

	2017	2016
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	(\$5,286)	\$1,407
Gains (losses) on disposal of investments	9,510	(8,074)
Gains (losses) on disposal of property, plant and equipment	(7,938)	(4,473)
Net currency exchange gains (losses)	(79,589)	(16,461)
Others	10,815	13,119
Total	(\$72,488)	(\$14,482)

(20) FINANCE COSTS

	2017	2016
Interest expense		
Bank borrowings	\$35,185	\$21,024
Short-term bills payable	1,452	1,074
	36,637	22,098
Less: capitalisation	(77)	(47)
Finance costs	\$36,560	\$22,051

(21) ADDITIONAL INFORMATION OF EXPENSES BY NATURE

	2017			2016		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefit expense						
Salary	\$482,273	\$200,965	\$683,238	\$475,668	\$188,639	\$664,307
Labor and health insurance	42,344	10,075	52,419	39,476	8,937	48,413
Pension expense	18,672	4,738	23,410	18,771	4,884	23,655
Other	47,569	8,923	56,492	45,746	7,820	53,566
	\$590,858	\$224,701	\$815,559	\$579,661	\$210,280	\$789,941
Depreciation	\$176,584	\$23,312	\$199,896	\$176,166	\$23,947	\$200,113

A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, should be distributed as employees' compensation and directors' remuneration. The ratio shall be 5% for employees' compensation and shall not be higher than 2% for directors' remuneration.

B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$52,865 thousand and \$50,071 thousand, respectively; while directors' remuneration was accrued at \$21,146 thousand and \$20,029 thousand, respectively. The employees' bonus and directors' remuneration were estimated and accrued based on profit of current year distributable as of the end of reporting period. The employees' bonus and directors' remuneration of 2016 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2016 financial statements. Information about the appropriation of employees' bonus and directors' remuneration by the Company as proposed by the Board of Directors and resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

C. As of December 31, 2017 and 2016, the Company had 905 and 891 employees, respectively.

(22) INCOME TAX

A. Income tax expense

(a) Components of income tax expense:

	<u>2017</u>	<u>2016</u>
Current tax		
Current tax on profit for the period	\$177,107	\$87,795
Additional 10% tax on undistributed earnings	0	0
Adjustments in respect of prior years	4,135	9,277
Total current tax	<u>181,242</u>	<u>97,072</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(14,167)</u>	<u>40,692</u>
Income tax expense	<u>\$167,075</u>	<u>\$137,764</u>

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

	<u>2017</u>	<u>2016</u>
Actuarial gains/losses on defined benefit obligations	<u>\$50</u>	<u>\$983</u>

B. Reconciliation between income tax expenses and accounting profit:

	<u>2017</u>	<u>2016</u>
Accounting profit (income before tax)	<u>\$983,263</u>	<u>\$931,327</u>
Income tax expense at the statutory rate 17%	\$167,155	\$158,325
Effect from investment tax credit	0	(31,706)
Tax-exempt income	722	(1,319)
Nondeductible items in determining taxable income	727	3,014
Change in assessment of realization of		
deferred tax assets	0	173
Effect of tax rate changes on deferred income tax	(5,664)	0
Difference between prior year's		
income tax estimation and assessed results	<u>4,135</u>	<u>9,277</u>
Income tax expense	<u>\$167,075</u>	<u>\$137,764</u>

In January 2018, it was announced that the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. Deferred tax assets and deferred tax liabilities recognized are expected to be adjusted.

C. Amounts of deferred income tax assets or liabilities as a result of temporary difference as follows:

	2017			December 31
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	
Deferred tax assets				
Loss on inventory	\$2,720	\$7,220	\$0	\$9,940
Unrelised exchange loss	0	1,766	0	1,766
Accrued pension cost	20,782	2,773	50	23,605
Unrealized investment loss	336	0	0	396
Subtotal	<u>\$23,838</u>	<u>\$11,819</u>	<u>\$50</u>	<u>\$35,707</u>
Deferred tax liabilities				
Unrealized exchange gain	\$2,599	(\$2,599)	\$0	\$0
Allowance for bad debts	1,414	249	0	1,663
Unrealized revaluation increments	890	0	0	890
Subtotal	<u>\$4,903</u>	<u>(\$2,350)</u>	<u>\$0</u>	<u>\$2,553</u>

	2016			December 31
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	
Deferred tax assets				
Loss on inventory	\$34,034	(\$31,314)	\$0	\$2,720
Accrued pension cost	28,002	(8,203)	983	20,782
Unrealized investment loss	336	0	0	336
Subtotal	<u>\$62,372</u>	<u>(\$39,517)</u>	<u>\$983</u>	<u>\$23,838</u>
Deferred tax liabilities				
Unrealized exchange gain(loss)	\$1,423	\$1,176	\$0	\$2,599
Allowance for bad debts	1,414	0	0	1,414
Unrealized revaluation increments	890	0	0	890
Subtotal	<u>\$3,727</u>	<u>\$1,176</u>	<u>\$0</u>	<u>\$4,903</u>

D. Unrecognized deferred tax assets of deductible temporary differences are as follows:

	2017	2016
Deductible temporary differences	<u>\$1,956</u>	<u>\$1,591</u>

E. The Company's expansion plan is eligible for a five-year (1st January, 2012 - 31st December, 2016) exemption on income tax.

F. The Company's income tax returns prior to 2015 have been assessed and approved by the Tax Authority.

and 2016. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
Later later than one year	\$740	\$740
Later than one year but not later than five years	1,510	2,220
Later than five years	0	30
Total	<u>\$2,250</u>	<u>\$2,990</u>

(25) SUPPLEMENTARY CASH FLOW INFORMATION

Investing activities with partial cash payments:

	2017	2016
Purchase of fixed assets	\$307,327	\$846,347
Add: opening balance of payable on equipment	14,525	5,658
Less: ending balance of payable on equipment	(5,090)	(14,525)
Cash paid during the period	<u>\$316,762</u>	<u>\$837,480</u>

7. RELATED-PARTY TRANSACTIONS

(1) Significant related party transactions

None.

(2) Key management compensation

	2017	2016
Short-term employee benefits	\$94,968	\$87,093
Post-employment benefits	564	493
Total	<u>\$95,532</u>	<u>\$87,586</u>

8. PLEDGED ASSETS

Pledged asset	Book value		Purpose
	December 31, 2017	December 31, 2016	
Other current assets			
- Demand deposits	\$0	\$481	Reserve account
- Time deposits	800	800	Guarantee deposits
Total	<u>\$800</u>	<u>\$1,281</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

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

	December 31, 2017	December 31, 2016
Property, plant and equipment	<u>\$983,706</u>	<u>\$32,912</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Company plans its working capital needs, capital asset purchases, research and development expenditures, dividend payments and other requirements over the future periods based on industry features, future development and influence of the exterior environment, to secure its ability to continue as a going concern, deserved return of shareholders and the interests of other stakeholders at the same time. The Company also maintains an optimal capital structure in order to enhance the value of the shareholders in the long term.

The Company may adjust the dividend payment to stockholders, issue new shares or return capital to stockholders to maintain or adjust the capital structure.

(2) Financial instruments

A. Fair value information of financial instruments

Except those listed in the table below, the carrying amounts of the Company's financial instruments not measured at fair value other receivables, short-term loans, notes payable, accounts payable and other approximate to their fair value. The fair value information of financial instruments measured at fair value is provided in Note 12(3):

Financial assets	December 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Financial assets carried at cost	\$980,761	—	\$874,818	—

B. Financial risk management policies

(a) The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance. The Company uses derivative financial instruments to hedge certain risk exposures (see Notes 6(2)).

(b) Risk management is carried out by a treasury department (Company treasury) under policies approved by the management. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Company provides written principles for overall risk management, as well as written policies covering specific areas and matters.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities. The Company has foreign currency risk arising from purchases or sales and applies natural hedges, and the Company utilizes currency forward contracts to hedge

its part of currency exposures °

The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

		December 31, 2017		
		Amount	Exchange Rate	NTD
	Monetary items	(In Thousands)		
Financial assets	USD	\$55,301	29.76	\$1,645,744
	EUR	808	35.57	28,746
	JPY	261,998	0.2642	69,220
		December 31, 2016		
		Amount	Exchange Rate	NTD
	Monetary items	(In Thousands)		
Financial assets	USD	\$39,804	32.25	\$1,283,675
	EUR	504	33.9	17,082
	JPY	467,779	0.2756	128,920
Financial liabilities	USD	919	32.25	29,627

Analysis of foreign currency market risk arising from significant foreign exchange variation:

		2017		
		Sensitivity analysis		
	Monetary items	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets	USD	1%	\$16,457	\$0
	EUR	1%	287	0
	JPY	1%	692	0
		2016		
		Sensitivity analysis		
	Monetary items	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
Financial assets	USD	1%	\$12,837	\$0
	EUR	1%	171	0
	JPY	1%	1,289	0
Financial liabilities	USD	1%	\$296	\$0

Price risk

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the balance sheet as at fair value through profit or loss. 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.

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, post-tax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by \$366 thousand and \$224 thousand, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss; stockholder's equity for the years ended December 31, 2017 and 2016 would have increased/decreased by \$0 thousand and \$259 thousand, respectively, as a result of gains/losses on equity securities classified as profit or loss of available-for-sale.

Interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. The Company's borrowings at variable rate were denominated in the NTD.

At December 31, 2017, if interest rates on TWD-denominated borrowings at that date had been 0.1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2017 would have been \$33 thousand lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with good rating are accepted.

No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

The credit quality information of financial assets that are neither past due nor impaired and past due but not impaired in Note 6(6).

(c) Liquidity risk

- i. The Company manages liquidity risk to ensure that the Company possesses sufficient financial flexibility by maintaining adequate reserves of cash and reserve financing facilities, and also monitor forecasts of its liquidity requirements to ensure the Company has sufficient liquidity to fund its business requirements associated with existing operations.
- ii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity

groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities.

December 31, 2017					
	Less than 1 year	Between 2 and 3 year	Between 3 and 4 years	Between 4 and 5 years	Over 5 years
Non-derivative financial liabilities					
Short-term borrowings	\$2,775,150	\$0	\$0	\$0	\$0
Short-term notes and bills payable	99,966	0	0	0	0
Notes payable	155	0	0	0	0
Accounts payable	364,238	0	0	0	0
Long-term loans	0	200,000	200,000	0	0
	Less than 3 months	Between 3 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Derivative financial liabilities					
Forward exchange contracts	\$10	\$0	\$0	\$0	\$0
December 31, 2016					
	Less than 1 year	Between 2 and 3 year	Between 3 and 4 years	Between 4 and 5 years	Over 5 years
Non-derivative financial liabilities					
Short-term borrowings	\$2,695,702	\$0	\$0	\$0	\$0
Short-term notes and bills payable	299,607	0	0	0	0
Notes payable	257	0	0	0	0
Accounts payable	192,505	0	0	0	0
Long-term borrowings (including current portion)	7,190	0	0	0	0

(3) Fair value estimation

- A. The company's financial assets and financial liabilities not measured at fair value please refer to Note 12(2)A.
- B. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data.

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

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Equity securities	\$36,600	\$0	\$0	\$36,600
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
Forward exchange	0	10	0	10
December 31, 2016				
Financial assets:				
Financial assets at fair value through profit or loss				
Equity securities	\$22,400	\$0	\$0	\$22,400
Forward exchange	0	7,992	0	7,992
Available-for-sale financial assets				
Equity securities	25,853	0	0	25,853

The Company has no transfers between the fair value Level 1 and Level 2.

The Company has no purchases and disposals for assets on Level 3.

C. Technique and assumption used in fair value measurement

(1) The listed stock's value is determined with reference to quoted market prices.

(2) Evaluation of derivative financial instruments is accordance with generally accepted pricing models. For example, discounted method and option pricing models. Forward exchange contracts based on current forward exchange rates.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None

B. Provision of endorsements and guarantees to others: None

C. Holding of marketable securities at the end of the period(not include Investee, Associates and Joint ventures): Table 1

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None

E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: Table 2

F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: None

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None

I. Trading in Derivative financial instruments undertaken during the reporting periods: Note 6(2)

- J. Significant inter-company transactions during the reporting periods: None
- (2) Related information of investees : Table 3
- (3) Information on investment in Mainland China: None

14. SEGMENT INFORMATION

(1) General information

The Company recognizes the operating segments based on the reporting information used by chief operating decision maker to allocate resources to the segments and assess their performance. The Company identified and measured its segment on the same basis during reporting period.

(2) Measurement of segment information

The Company use operation income before income tax as the measurement for the basis of performance assessment.

(3) Information about segment profit or loss, assets and liabilities

The segment information provided to the chief operating decision maker for the reportable segments is as follows:

As of and for the year ended December 31, 2017

	Stainless Steel Sheet/Coil	Stainless Steel Welded Pipe/Tube	Others	Total
External revenue-net	\$10,308,824	\$8,723,659	\$233,146	\$19,265,629
Segment profit(loss)	\$271,707	\$845,042	(\$1,943)	\$1,114,806
Segment assets	\$1,394,715	\$2,701,537	\$1,215,347	\$5,311,599

As of and for the year ended December 31, 2016

	Stainless Steel Sheet/Coil	Stainless Steel Welded Pipe/Tube	Others	Total
External revenue-net	\$9,921,186	\$7,471,744	\$231,992	\$17,624,922
Segment profit(loss)	\$338,408	\$650,976	(\$221)	\$989,163
Segment assets	\$1,387,214	\$2,624,188	\$422,083	\$4,433,485

(4) Reconciliation for segment income (loss)

The sales between segments were under the fair trading principle. The external revenue reported to chief operating decision maker adopts the same measurement for revenues in income statement.

The reconciliations of pre-tax income between reportable segments and continuing operation were as follows:

	2017	2016
Income of reportable segments	\$1,14,806	\$989,163
Directors' remuneration	(23,096)	(21,949)
Non-operating income and expenditure	(108,447)	(35,887)
Income from continuing operations before income tax	\$983,263	\$931,327

(5)Geographical Information

The geographical information for the years ended December 31, 2017 and 2016 are as follow:

A. Revenue from external customers

	<u>2017</u>	<u>2016</u>
Asia	\$6,573,224	\$6,148,965
Europe	6,185,603	6,096,867
America	3,285,862	2,702,465
Other	<u>3,220,940</u>	<u>2,676,625</u>
Total	<u>\$19,265,629</u>	<u>\$17,624,922</u>

B. All non-current assets are located in the Company's country of domicile.

(6)Major customers' information

The company had no customers with exceeding 10% of the total operating revenues for 2017 and 2016.

Tables (1) : Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures):

Securities held by	Marketable securities type	Relationship With the Securities issuer	General ledger account	December 31, 2017			
				(In thousands of New Taiwan dollars)			
				Shares/Units (thousands)	Book value	Ownership (%)	Fair value
YCINOX CO., LTD	Common stock AbGenomics Holding Ltd.	—	Financial assets carried at cost - non-current	11,051	\$442,432	9.35%	—
“	Gongwin Biopharm Holdings Co., Ltd.	—	Financial assets carried at cost - non-current	7,350	484,497	7.56%	—
Ji-Mao	Common stock Calin Technology Co. Ltd.	—	Financial assets at fair value through profit or loss-current	1,000	36,600	0.01%	@36.6
“	AbGenomics Holding Ltd.	—	Financial assets carried at cost - non-current	560	19,081	0.47%	—
“	Gongwin Biopharm Holdings Co., Ltd.	—	Financial assets carried at cost - non-current	500	34,751	0.51%	—

(2) Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Name of relationships	Prior Transaction of Related Counter-party			Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date			
YCINOX CO., LTD	Land	April, 7, 2015	\$829,432	\$829,432	Ministry of Economic Affairs	None	—	—	—	Handled by Industrial Development Bureau, MOEA in accordance with Article 46 of Statute for Industrial Innovation	Manufacturing Purpose	None

(3) Information on investees

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017		Net income (loss) of the investment	Investment Income(loss)	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership			
YC INOX CO., Ltd	Ji-Mao	Chang-Hwa, Taiwan	Investment	\$100,120	\$100,120	10,000	100%	\$703	\$703	