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HSIN KUANG STEEL CO., LTD

2018 General Shareholders Meeting Proceedings Manual

Date: 9:00 AM, June 19, 2018
Location: No. 120, Gongye 8th Road, Guanyin
District, Taoyuan City
(The Company's Guanyin Plant Conference Office)

Hsin Kuang Steel Co., Ltd.

Proceedings Manual for the 2018 General Shareholders

Meeting

Table of Contents

I. Call Meeting to Order

II. Agenda

| | |
|-------------------------------------|----|
| 1. Reports..... | 5 |
| 2. Acceptance and Discussions | 7 |
| 3. Extempore Motions | 11 |

III. Attachments

| | |
|--|----|
| 1. Business Report..... | 12 |
| 2. Audit Committee's Report..... | 15 |
| 3. Independent Auditor's Report and the 2017 Consolidated Financial Statements | 16 |
| 4. Independent Auditor's Report and the 2017 Individual Financial Statements | 27 |
| 5. Earnings Distribution Statement | 39 |
| 6. Table of Comparison of Revised Articles of the Company's "Procedures for the Acquisition or Disposal of Assets" | 40 |

IV. Appendices

| | |
|--|----|
| 1. Rules of Procedure for Shareholders' Meeting..... | 42 |
| 2. Articles of Incorporation..... | 46 |
| 3. Shares Held by All Directors and Minimum Shareholdings Required by Law..... | 52 |

I. Call Meeting to Order

II. Agenda

Hsin Kuang Steel Co., Ltd.
Proceedings for 2018 General Shareholders Meeting

1. Meeting called to order (announce respective number of shares held by shareholders present)
2. Chairman takes his seat
3. Formalities
4. Chairman's Speech
5. Reports
6. Acceptance and Discussions
7. Extempore Motions
8. Meeting adjourned

Hsin Kuang Steel Co., Ltd.

Agenda for the 2018 General Shareholders Meeting

Time: 9:00 AM, June 19 (Tuesday), 2018

Location: No. 120, Gongye 8th Road, Guanyin District, Taoyuan City
(The Company's Guanyin Plant Conference Office)

Attendance: All shareholders and proxies

Chaired by: Chairman Alexander, M.T. Su

1. Chairman's speech

2. Reports

Case 1 : 2017 Business Report

Case 2 : Audit Committee's Report.

Case 3 : Report on the 2017 distribution of remunerations to employees and directors.

Case 4 : Report on the Company's total amount for endorsement, guarantee and amount of loans to third parties.

Case 5 : Other matters: None. °

3. Acceptance and Discussions

Case 1 : Ratification of the 2017 business report and final financial statements.

Case 2 : Approval of 2017 earnings distribution proposal.

Case 3 : Approval of the distribution of cash paid from capital reserves.

Case 4 : Approval of the amendment of the Procedures for Acquisition and Disposal of Assets.

4. Extempore Motions

5. Meeting adjourned

Reports

I. 2017 Business Report

Description: The Company's 2017 Business Report was approved in the 6th meeting of the Company's 14th-term Board of Directors. Please refer to Attachment 1 from page 10 to page 11 of the Proceedings Manual.

II. Audit Committee's Report. Report by Audit Committee on the review of the 2017 financial statements

Description: Please refer to Attachment 2 on page 12 of the Proceedings Manual for the Auditing Report for the report by Audit Committee on the review of the 2017 financial statements.

III. Report on the 2017 distribution of remuneration to employees, directors, and supervisors

Description: (1) Remuneration shall be distributed in accordance with Article 20 the Company's Articles of Incorporation, which states "no less than 3% of any profit made by the Company in a year shall be allocated as employee bonus, and the Board of Directors shall decide to distribute the bonus as shares or cash, which can also be distributed to employees of affiliated companies that meet certain criteria; if the Company sustains profit for the current year, the Board of Directors shall decide to set aside no more than 3% of profit as director and supervisor remuneration."

(2) The Company's 2017 remuneration for employees is NT\$38,308,764 and the remuneration shall be distributed in cash as approved in the Board of Directors meeting resolution on March 13, 2018.

(3) The Company's amount of remuneration appropriated for Directors and Supervisors in 2017 is NT\$38,308,764.

IV. Report on total amount for endorsement, guarantee and amount of loans to third parties

Description: (1).The Company's aggregate amount of endorsements and guarantees is as follows as of December 31, 2017:

Unit: NT\$1,000

| Guarantee beneficiary | Relationship | Guaranteed amount | Actual amount of utilization |
|---------------------------------------|---|-------------------|------------------------------|
| Hsin Kuang Alga Engineering Co., Ltd. | A subsidiary of the Company with 68.16% of shares held by the Company through direct investment | 7,400 | 7,400 |

The total amount of endorsement and guarantee as of December 31, 2017 amounted to NT\$7.4 million, which is consistent with the Company's regulation on the total amount of external endorsements and guarantees and the maximum amount of endorsements and guarantees for a single enterprise.

(2). As of December 31, 2017, the Company has not loaned funds to others

V. Other matters: None.

VI. 2017 Business Report

Description: The Company's 2017 Business Report was approved in the 6th meeting of the Company's 14th-term Board of Directors. Please refer to Attachment 1 from page 10 to page 11 of the Proceedings Manual.

VII. Audit Committee's Report

Description: Please see Attachment 2 for the Audit Committee's Report attached to the Proceedings Manual.

VIII. Report on the 2017 distribution of remuneration to employees, directors, and supervisors

Description: (1) Remuneration shall be distributed in accordance with Article 20 the Company's Articles of Incorporation, which states "no less than 3% of any profit made by the Company in a year shall be allocated as employee bonus, and the Board of Directors shall decide to distribute the bonus as shares or cash, which can also be distributed to employees of affiliated companies that meet certain criteria; if the Company sustains profit for the current year, the Board of Directors shall decide to set aside no more than 3% of profit as director and supervisor remuneration."

(2)The Company's 2017 remuneration for employees is NT\$38,308,764 and the remuneration shall be distributed in cash as approved in the Board of Directors meeting resolution on March 13, 2018.

(3)The Company's amount of remuneration appropriated for Directors and Supervisors in 2017 is NT\$38,308,764.

IX. Report on total amount for endorsement, guarantee and amount of loans to third parties

Description: (1) The Company's aggregate amount of endorsements and guarantees is as follows as of December 31, 2017:

Unit: NT\$1,000

| Guarantee beneficiary | Relationship | Guaranteed amount | Actual amount of utilization |
|---------------------------------------|---|-------------------|------------------------------|
| Hsin Kuang Alga Engineering Co., Ltd. | A subsidiary of the Company with 68.16% of shares held by the Company through direct investment | 7,400 | 7,400 |

The total amount of endorsement and guarantee as of December 31, 2017 amounted to NT\$7.4 million, which is consistent with the Company's regulation on the total amount of external endorsements and guarantees and the maximum amount of endorsements and guarantees for a single enterprise.

(2).As of December 31, 2017, the Company has not loaned funds to others.

X. Other matters: No

Acceptance and Discussions

Case 1 (proposed by the Board of Directors)

Case: Ratification of the 2017 business report and final financial statements.

Description: (1) The Company's 2017 financial statements, including: the balance sheet, comprehensive income statement, statement of changes in equity and cash flow statement have been audited by Chao-Ling Chen, CPA and Chiang-Pao Liu, CPA, passed in the 6th meeting of the Company's 14th-term Board of Directors, and audited by all supervisors who filed an written auditing report.

(2) Please refer to and ratify Attachment 1 from page 10 to page 11 and Attachment 3 and 4 from page 13 to 33 of the Proceedings Manual for the Company's 2017 Business Report, CPA Auditing Report and the aforementioned financial statements.

Resolution:

Case 1 (proposed by the Board of Directors)

Case: Ratification of the 2017 business report and final financial statements.

Description: (1) The Company's 2017 financial statements, including the balance sheet, comprehensive income statement, statement of changes in equity and the cash flow statement, have been audited by Chao-Ling Chen, CPA and Chiang-Pao Liu, CPA and recognized in the 6th meeting of the Company's 14th-term Board of Directors.

(2) Please refer to and ratify Attachment 1 from page 10 to page 11 and Attachment 3 and 4 from page 13 to 33 of the Proceedings Manual for the Company's 2017 Business Report, CPA Auditing Report and the aforementioned financial statements.

Resolution:

Case 2 (proposed by the Board of Directors)

Case: Approval of 2017 earnings distribution proposal.

Description: (1) The earnings distribution proposal is for the distribution of distributable earnings of 2017 in cash dividend of NT\$1.5 per ordinary share. In the event that the total number of the Company's stocks in circulation is affected for any reason, please authorize the Chairman to adjust the distribution ratio based on the total amount of earnings to be distributed and the resolution in this shareholders meeting in accordance with the

quantity of the Company's shares in external circulation on the record date.

- (2) The cash dividends shall be calculated to the NT\$ and fractional amounts of less than NT\$1 shall be tallied and listed under stockholders' equity.
- (3) The Company's 2017 Earnings Distribution Statement was approved in the 6th meeting of the Company's 14th-term Board of Directors and approved by Supervisors as the submitted proposal. Please refer to Attachment 5 on page 33 of the Proceedings Manual and ratify.

Resolution:

Case 2 (proposed by the Board of Directors)

Case: Approval of 2017 earnings distribution proposal.

Description: (1) The earnings distribution proposal is for the distribution of distributable earnings of 2017 in cash dividends of NT\$1.5 per ordinary share. In the event that the total number of the Company's stocks in circulation is affected for any reason, please authorize the Chairman to adjust the distribution ratio based on the total amount of earnings to be distributed and the resolution in this shareholders meeting in accordance with the quantity of the Company's shares in external circulation on the record date.

- (2).The cash dividends shall be calculated to the NT\$ and fractional amounts of less than NT\$1 shall be tallied and listed under stockholders' equity.
- (3).Please refer to and ratify the Company's 2017 Earnings Distribution Statement in Attachment 5 on page 33 of the Proceedings Manual.

Resolution:

Case 3 (proposed by the Board of Directors)

Case: Approval of the distribution of cash paid from capital reserves.

Description: (1) Pursuant to Article 241 of the Company Act, the Company plans to allocate NT\$153,096,870 from the capital reserve that originate from the income on premiums of stocks issued at values exceeding their nominal value and the conversion price of the conversion of corporate bonds to distribute NT\$0.50 for each ordinary share.

- (2) In the event that the total number of the Company's stocks in circulation is affected for any reason, please authorize the Chairman to adjust the distribution ratio based on the total amount of capital reserve to be distributed and the resolution in this shareholders meeting in accordance with the quantity of the Company's shares in external circulation on the payment date.
- (3) The distribution of cash dividends shall be calculated to the NT\$ and fractional amounts of less than NT\$1 shall be tallied and listed under stockholders' equity.
- (4) After the approval of the proposal by the general shareholders' meeting, the shareholders are requested to authorize the Board of Directors to decide the payment date for distribution.

Resolution:

Case 3 (proposed by the Board of Directors)

Case: Approval of the distribution of cash paid from capital reserves.

Description: (1) Pursuant to Article 241 of the Company Act, the Company plans to allocate NT\$153,096,870 from the capital reserve that originated from the income on premiums of stocks issued at values exceeding their nominal value and the conversion price of the conversion of corporate bonds to distribute NT\$0.50 for each ordinary share.

- (2). In the event that the total number of the Company's stocks in circulation is affected for any reason, please authorize the Chairman to adjust the distribution ratio based on the total amount of capital reserve to be distributed and the resolution in this shareholders meeting in accordance with the quantity of the Company's shares in external circulation on the payment date.
- (3). The distribution of cash dividends shall be calculated to the NT\$ and fractional amounts of less than NT\$1 shall be tallied and listed under stockholders' equity.

- (4). After the approval of the proposal by the general shareholders' meeting, the shareholders are requested to authorize the Board of Directors to decide the payment date for distribution.

Resolution:

Case 4 (proposed by the Board of Directors)

Case: Approval of the amendment of the Procedures for Acquisition and Disposal of Assets.

Description: (1) Article 7, Article 8, and Article 9 are amended in accordance with the actual requirements for the Company's business operations.

- (2) Table of Comparison of Revised Articles of the Company's "Procedures for the Acquisition or Disposal of Assets" was approved in the 6th meeting of the Company's 14th-term Board of Directors. Please refer to Attachment 6 from page 34 to page 35 of the Proceedings Manual and ratify.

Resolution:

Case 4 (proposed by the Board of Directors)

Case: Approval of the amendment of the Procedures for Acquisition and Disposal of Assets.

Description: (1) Article 7, Article 8, and Article 9 are amended in accordance with actual requirements for the Company's business operations.

- (2).Table of Comparison of Revised Articles of the Company's "Procedures for the Acquisition or Disposal of Assets" was approved in the 6th meeting of the Company's 14th-term Board of Directors. Please refer to Attachment 6 from page 34 to page 35 of the Proceedings Manual and ratify.

Resolution:

Extempore Motions

Meeting adjourned

Hsin Kuang Steel Co., Ltd. Business Report

2017 was a great year and overall business performance was great. The steel industry in 2017 continued the recovery that started in 2016 and the outlook of the steel market is very positive. All of the Company's plants are operating at full production capacity, and we have achieved the best sales performance in recent years with smooth operations in procurement, production, sales as well as concerted efforts from employees.

Financial Performance

The Company's combined revenue for 2017 totaled NT\$ 8.35 billion, which was a NT\$1.94 billion and 30.3% increase from the NT\$6.41 billion of the previous year. The net operating profit totaled NT\$990 million, which was a NT\$240 million and 32% increase from the NT\$750 million from the previous year. The EPS was NT\$3.49, which was a NT\$0.82 and 30.7% increase from the NT\$2.67 from the previous year.

In products sales, the Company's operating goal in 2017 was the sale of 380,000 metric tons of steel products and the combined sales of the year reached 360,000 metric tons. The achievement rate was 94.7%. Compared with the 335,000 metric tons from 2016, sales increased by 25,000 metric tons and grew by 7.5%.

In income and expenditure, cash flow in 2017 from business activities amounted to NT\$518.96 million, which mainly consisted of the bills receivable and accounts receivable generated in sales as well as inventories in response to supply and demand operations etc. Cash outflow for investment activities amounted to NT\$1,018.58 million mainly due to the purchase of properties, investment in plants and equipment, and joint ventures with affiliates. Cash inflow from financing activities amounted to NT\$647.82 million mainly due to long-term and short-term loans necessary for operations and the issuance of convertible corporate bonds. The closing cash and cash equivalents of the period was NT\$810.18 million.

Annual Corporate Development

The 2018 business strategies include: ①. Procurement: Strengthen supplier relationships and management and make acquisitions when prices are low; ②.

Business: Adopt complex management styles for sales of multiple categories of steel; ③. Customer relationship management: Focus on the value curve and develop new customers. ④. Public and private construction: Adopt concerted cooperation and accept new purchase orders. ⑤. Strategic integration and mid to long-term plans: Implement supply chain integration, work with joint ventures and world-class steel plants, supply and manufacture steel parts for underwater foundations for offshore wind power projects, develop solar photovoltaic materials, and expand overseas investments.

Based on the guidance of the aforementioned strategies, we shall implement the following:

1. Blue Ocean strategy: Optimize the inventory structure, integrate value chains, cultivate talent, and expand overseas markets.
2. Strengthen business management: Cultivate regional talent, adopt value-oriented strategies for profit centers, intensify development of direct customers and those with whom we have not conducted transactions in a long time, assess and strengthen the capacity of the Central Region Steel Coil Cutting Center, and integrate supply chains.
3. Strengthen manufacturing management system: Improve production efficiency, utilization rates, improve labor safety management, improve production quality, reduce the outflow of mixed materials, improve environmental management, and implement production and management resources of joint ventures.
4. Simplify corporate procedures: Introduce tags into the production system, assess improvements of the CRM database system with the aim of increasing efficiency and reducing lead time, and improve procedures.

The total annual sales goal of 2018 is set at 383,000 metric tons of steel. The domestic steel market is completely free. The steel supply volume and prices are affected by factors such as China Steel's production capacity and periodic wholesale prices as well as competition from major steel makers from Japan, Russia, Brazil, India, Korea, and Europe. We must keep abreast of the volume, price, and lead time in the supply chain and pay close attention to the domestic midstream and downstream demand. With the reputation we have accumulated in the industry throughout the years and the updated and expanded plants, equipment, manpower logistics, and cutting and processing capabilities, all our employees are confident of reaching the operation target of 383,000 metric tons this year under the guidance of the overarching strategy and key execution points.

Future Outlook

The government's policies for the promotion of solar power, offshore wind power, Forward-looking Infrastructure Development, and expansion of domestic demand coupled with strong economic development in the United States and Europe and Mainland China's advancement of output reduction and environmental protection measures contribute to a stable outlook of the domestic steel market this year. We shall continue to implement expansion policies, intensify task-based assignments for the departments, cultivate talent and recruit outstanding talent. We shall advance tasks while implementing effective management, develop existing customers and production lines, and work hard to develop new customers and new products to embrace the new year.

Legal Representative: Ming-Te Su
Accounting Officer: Pai-Hui Liu

Managerial Officer: Ming-Te Su Chief

Audit Committee's Report

The Board of Directors has prepared and submitted the 2017 business report, financial statements, and earnings distribution proposal, of which the financial statements have been audited by Deloitte. These have been reviewed by the Audit Committee as correctly portraying the Company's business activities. In accordance with the Securities and Exchange Act and the Company Act, this report is submitted for shareholder's examination.

Hsin Kuang Steel Co., Ltd.

Audit Committee Convener

March 13, 2018

Independent Auditor's Report and 2017 Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hsin Kuang Steel Company Limited

Opinion

We have audited the accompanying consolidated financial statements of Hsin Kuang Steel Company Limited (the "Company") and its 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 flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company 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.

Key audit matters for the consolidated financial statements for the year ended December 31, 2017 are stated as follows:

Estimated Impairment of Trade Receivables

As of December 31, 2017, the net amount of notes receivable, trade receivables and overdue receivables, in New Taiwan dollars (“NT\$”), was NT\$2,279,394 thousand, representing 16% of the Company and its subsidiaries’ total assets. When the management estimates the recoverability of note receivables, trade receivables and overdue receivables, it is based on the objective impairment evidence of the individual receivables and the condition of collateral or other credit enhancements. When there is no objective impairment evidence, the allowance for impairment loss recognized against trade receivables is based on historical experience with the counterparties and the aging of receivables. Since the amount of trade receivables is significant for the consolidated financial statements and the estimation of impairment of notes receivable, trade receivables and overdue receivables is subject to management’s judgment, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 9 to the accompanying consolidated financial statements for the accounting policies and related information on the estimated impairment of trade receivables.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key control over the estimated impairment of trade receivables;
2. Obtained the accounting policies for the provision of impairment of trade receivables and the aging report in order to confirm whether the sales customers have credit insurance or collateral, assessed the overall economic situation, and assessed the reasonableness of management’s assumptions on the estimated impairment of trade receivables and the reasonableness of the customer credit management;
3. Tested the completeness and accuracy of the aging of receivables, compared the aging report to those of previous years, reviewed the bad debt write-offs in the current year and the prior year, and checked the recoverability of outstanding debts;
4. Examined and assessed the reasonableness of the overdue receivables of subsequent-to-period-end cash receipts, and considered if additional provisions were required.

Investments in Associates and Joint Ventures

In the year of 2017, the Company and its subsidiaries incurred NT\$211,110 thousand gain on bargain purchase from the 50% equity acquisition of Mason Metal Industry Co., Ltd. To comply with the accounting treatment for the transaction of investments in associates and joint ventures, the management needs to determine the fair value of identifiable assets and liabilities, and such process involves some subjective and hypothetical judgements for the future cash flows, asset values, discount rates and etc., with a certain degree of complexity. If the fair value assessment is not appropriate, the financial statements will be misstated, so the gain from bargain purchase in investments in associates and joint ventures has been identified as a key audit matter.

Refer to Notes 4 and 12 to the accompanying consolidated financial statements for the accounting policies and related information on the investments in associates and joint ventures.

For our audit procedures performed in respect of the above area, we:

1. Acquired and examined the contracts of equity acquisition and the relating report of purchase price allocation issued by external appraisal experts.
2. Assigned the internal appraisal experts of the firm to assist the auditors in assessing the reasonableness of the assumptions used in determining the fair value of identifiable assets and liabilities in the reports of purchase price allocation mentioned above.
3. Recalculated the gain on bargain purchase to confirm its accuracy and examined whether the disclosures of relevant information are complied with the accounting standards.

Other Matters

We have also audited the parent company only financial statements of Hsin Kuang Steel Company Limited for the years ended December 31, 2017 and 2016 on which we have issued an unmodified 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 Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, 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 and its subsidiaries' 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 and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chao-Ling Chen and Chiang-Pao Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 13, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. Also, as stated in Note 4 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

| ASSETS | 2017 | | 2016 | |
|--|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 810,178 | 6 | \$ 668,153 | 6 |
| Financial assets at fair value through profit or loss - current (Notes 4, 7 and 34) | 1,038,156 | 7 | 823,390 | 7 |
| Available-for-sale financial assets - current (Notes 4 and 8) | 81,767 | 1 | 330,402 | 3 |
| Notes receivable (Notes 4, 5, 9 and 34) | 1,018,597 | 7 | 966,558 | 8 |
| Trade receivables (Notes 4, 5, 9 and 33) | 1,257,797 | 9 | 1,330,865 | 11 |
| Amounts due from customers for construction contracts (Notes 4 and 10) | - | - | 2,345 | - |
| Other receivables | 504 | - | 68,178 | - |
| Prepayments | 2,748,943 | 20 | 2,263,475 | 19 |
| Inventories (Notes 4, 5 and 11) | 82,035 | 1 | 42,915 | - |
| Other current financial assets (Notes 4, 13 and 34) | 90,246 | 1 | 70,073 | 1 |
| Other current assets (Note 18) | 17,235 | - | 435 | - |
| Total current assets | 7,145,458 | 52 | 6,566,789 | 55 |
| NON-CURRENT ASSETS | | | | |
| Available-for-sale financial assets - non-current (Notes 4, 8 and 34) | 1,940,049 | 14 | 1,908,377 | 16 |
| Investments accounted for using the equity method (Notes 4 and 15) | 533,065 | 4 | 39,725 | - |
| Property, plant and equipment (Notes 4, 16 and 34) | 3,835,473 | 28 | 3,033,067 | 26 |
| Investment properties (Notes 4, 17 and 34) | 268,846 | 2 | 271,313 | 2 |
| Deferred tax assets (Notes 4 and 26) | 13,498 | - | 6,629 | - |
| Other non-current assets (Notes 4, 5, 9 and 18) | 81,849 | - | 95,256 | 1 |
| Total non-current assets | 6,672,780 | 48 | 5,354,367 | 45 |
| TOTAL | \$ 13,818,238 | 100 | \$ 11,921,156 | 100 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 4 and 19) | \$ 3,479,674 | 25 | \$ 3,395,094 | 28 |
| Short-term bills payable (Notes 4 and 19) | 469,508 | 4 | 189,774 | 2 |
| Financial liabilities at fair value through profit or loss - current (Notes 4 and 7) | 38,012 | - | 91 | - |
| Notes payable (Notes 4, 21 and 33) | 424,604 | 3 | 420,766 | 3 |
| Trade payables (Notes 4, 21 and 33) | 9,660 | - | 68,644 | - |
| Other payables (Note 22) | 159,637 | 1 | 235,508 | 2 |
| Current tax liabilities (Notes 4 and 26) | 133,329 | 1 | 11,157 | - |
| Current portion of long-term borrowings and bonds payable (Notes 4 and 19) | 1,017,508 | 7 | 318,884 | 3 |
| Other current liabilities | 104,359 | 1 | 76,018 | 1 |
| Total current liabilities | 5,836,291 | 42 | 4,715,936 | 39 |
| NON-CURRENT LIABILITIES | | | | |
| Bonds payable (Notes 4 and 20) | 532,148 | 4 | - | - |
| Long-term borrowings (Notes 4 and 19) | 935,230 | 7 | 1,608,558 | 14 |
| Provisions - non-current (Note 4) | 3,570 | - | - | - |
| Deferred tax liabilities (Notes 4 and 26) | 4,590 | - | 3,733 | - |
| Net defined benefit liabilities - non-current (Notes 4 and 23) | 27,780 | - | 19,692 | - |
| Other non-current liabilities | 300 | - | 300 | - |
| Total non-current liabilities | 1,503,618 | 11 | 1,632,283 | 14 |
| Total liabilities | 7,339,909 | 53 | 6,348,219 | 53 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 and 24) | | | | |
| Share capital | 3,061,937 | 22 | 2,991,876 | 25 |
| Capital surplus | 867,686 | 6 | 1,016,806 | 9 |
| Retained earnings | | | | |
| Legal reserve | 654,386 | 5 | 579,610 | 5 |
| Special reserve | 19,407 | - | 231,141 | 2 |
| Unappropriated earnings | 1,638,702 | 12 | 744,667 | 6 |
| Total retained earnings | 2,312,495 | 17 | 1,555,418 | 13 |
| Other equity | 28,820 | - | (19,407) | - |
| Total equity attributable to owners of the Company | 6,270,938 | 45 | 5,544,693 | 47 |
| NON-CONTROLLING INTERESTS | 207,391 | 2 | 28,244 | - |
| Total equity | 6,478,329 | 47 | 5,572,937 | 47 |
| TOTAL | \$ 13,818,238 | 100 | \$ 11,921,156 | 100 |

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

| | 2017 | | 2016 | |
|---|--------------------|--------------|--------------------|--------------|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 4 and 33) | | | | |
| Sales | \$ 8,190,258 | 114 | \$ 6,398,105 | 117 |
| Construction revenue | 740 | - | - | - |
| Other operating revenue | <u>160,914</u> | <u>2</u> | <u>13,581</u> | <u>-</u> |
| Total operating revenue | <u>8,351,912</u> | <u>116</u> | <u>6,411,686</u> | <u>117</u> |
| OPERATING COSTS (Note 33) | | | | |
| Cost of goods sold | (7,208,382) | (100) | (5,484,318) | (100) |
| Construction costs | (53) | - | - | - |
| Other operating costs | <u>(29,678)</u> | <u>-</u> | <u>(10,379)</u> | <u>-</u> |
| Total operating costs | <u>(7,238,113)</u> | <u>(100)</u> | <u>(5,494,697)</u> | <u>(100)</u> |
| GROSS PROFIT | <u>1,113,799</u> | <u>16</u> | <u>916,989</u> | <u>17</u> |
| OPERATING EXPENSES (Notes 4 and 25) | | | | |
| Selling and marketing expenses | (190,809) | (3) | (148,301) | (2) |
| General and administrative expenses | <u>(153,696)</u> | <u>(2)</u> | <u>(95,577)</u> | <u>(2)</u> |
| Total operating expenses | <u>(344,505)</u> | <u>(5)</u> | <u>(243,878)</u> | <u>(4)</u> |
| OTHER OPERATING INCOME AND EXPENSES (Note 25) | <u>225,231</u> | <u>3</u> | <u>78,989</u> | <u>1</u> |
| PROFIT FROM OPERATIONS | <u>994,525</u> | <u>14</u> | <u>752,100</u> | <u>14</u> |
| NON-OPERATING INCOME AND EXPENSES (Notes 4 and 25) | | | | |
| Other income | 13,418 | - | 11,729 | - |
| Gain from bargain purchase - acquisition of associates and joint ventures | 211,110 | 3 | - | - |
| Other gains | 98,027 | 1 | 140,895 | 3 |
| Finance costs | (111,489) | (1) | (94,132) | (2) |
| Share of profit or loss of associates and joint ventures | <u>3,873</u> | <u>-</u> | <u>688</u> | <u>-</u> |
| Total non-operating income and expenses | <u>214,939</u> | <u>3</u> | <u>59,180</u> | <u>1</u> |

(Continued)

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

| | 2017 | | 2016 | |
|---|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % |
| PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS | \$ 1,209,464 | 17 | \$ 811,280 | 15 |
| INCOME TAX EXPENSE (Notes 4 and 26) | <u>(135,932)</u> | <u>(2)</u> | <u>(61,496)</u> | <u>(1)</u> |
| NET PROFIT FOR THE YEAR | <u>1,073,532</u> | <u>15</u> | <u>749,784</u> | <u>14</u> |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Remeasurement of defined benefit plans | <u>(2,955)</u> | <u>-</u> | <u>(3,107)</u> | <u>-</u> |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating the financial statement of foreign operations | (10,405) | - | (8,529) | - |
| Unrealized gain on available-for-sale financial assets | <u>58,600</u> | <u>1</u> | <u>471,450</u> | <u>8</u> |
| | <u>48,195</u> | <u>1</u> | <u>462,921</u> | <u>8</u> |
| Other comprehensive income for the year, net of income tax | <u>45,240</u> | <u>1</u> | <u>459,814</u> | <u>8</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 1,118,772</u> | <u>16</u> | <u>\$ 1,209,598</u> | <u>22</u> |
| NET PROFIT ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ 1,066,226 | 15 | \$ 747,774 | 14 |
| Non-controlling interests | <u>7,306</u> | <u>-</u> | <u>2,010</u> | <u>-</u> |
| | <u>\$ 1,073,532</u> | <u>15</u> | <u>\$ 749,784</u> | <u>14</u> |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | | |
| Owners of the Company | \$ 1,111,498 | 16 | \$ 1,207,628 | 22 |
| Non-controlling interests | <u>7,274</u> | <u>-</u> | <u>1,970</u> | <u>-</u> |
| | <u>\$ 1,118,772</u> | <u>16</u> | <u>\$ 1,209,598</u> | <u>22</u> |
| EARNINGS PER SHARE (Note 27) | | | | |
| From continuing operations | | | | |
| Basic | <u>\$ 3.49</u> | | <u>\$ 2.67</u> | |
| Diluted | <u>\$ 3.30</u> | | <u>\$ 2.62</u> | |

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

| | Equity Attributable to Owners of the Company | | | | | | | | | | |
|---|--|--------------|-----------------|-------------------|-----------------|-------------------------|--|---|--------------|---------------------------|--------------|
| | | | | | | | Other Equity | | Total | Non-controlling Interests | Total Equity |
| | | | | | | | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | | | |
| | Share Capital | | Capital Surplus | Retained Earnings | | | | | | | |
| | Shares (In Thousands) | Amount | | Legal Reserve | Special Reserve | Unappropriated Earnings | | | | | |
| BALANCE AT JANUARY 1, 2016 | \$ 275,638 | \$ 2,756,380 | \$ 1,045,575 | \$ 579,610 | \$ - | \$ 231,141 | \$ 17,523 | \$ (499,891) | \$ 4,130,338 | \$ 30,172 | \$ 4,160,510 |
| Special reserve reversed under Rule No. 1010012865 issued by the FSC | - | - | - | - | 231,141 | (231,141) | - | - | - | - | - |
| Appropriation of 2015 earnings | | | | | | | | | | | |
| Cash dividends distributed from capital surplus | - | - | (165,976) | - | - | - | - | - | (165,976) | - | (165,976) |
| Cash dividends distributed by the subsidiaries | - | - | - | - | - | - | - | - | - | (1,938) | (1,938) |
| Other changes in capital surplus: | | | | | | | | | | | |
| Recognition of employee share options by the Company | - | - | 66 | - | - | - | - | - | 66 | (1,960) | (1,894) |
| Changes in percentage of ownership interests in subsidiaries | - | - | 1,424 | - | - | - | - | - | 1,424 | - | 1,424 |
| Convertible bonds converted to ordinary shares | 22,562 | 225,616 | 131,370 | - | - | - | - | - | 356,986 | - | 356,986 |
| Net profit for the year ended December 31, 2016 | - | - | - | - | - | 747,774 | - | - | 747,774 | 2,010 | 749,784 |
| Other comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | (3,107) | (8,489) | 471,450 | 459,854 | (40) | 459,814 |
| Total comprehensive income for the year ended December 31, 2016 | - | - | - | - | - | 744,667 | (8,489) | 471,450 | 1,207,628 | 1,970 | 1,209,598 |
| Issuance of ordinary shares under employee share options | 988 | 9,880 | 4,347 | - | - | - | - | - | 14,227 | - | 14,227 |
| BALANCE AT DECEMBER 31, 2016 | 299,188 | 2,991,876 | 1,016,806 | 579,610 | 231,141 | 744,667 | 9,034 | (28,441) | 5,544,693 | 28,244 | 5,572,937 |
| Special reserve reversed under Rule No. 1010012865 issued by the FSC | - | - | - | - | (211,734) | 211,734 | - | - | - | - | - |
| Appropriation of 2016 earnings | | | | | | | | | | | |
| Legal reserve | - | - | - | 74,776 | - | (74,776) | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (306,194) | - | - | (306,194) | - | (306,194) |
| Cash dividends distributed from capital surplus | - | - | (244,955) | - | - | - | - | - | (244,955) | - | (244,955) |
| Cash dividends distributed by the subsidiaries | - | - | - | - | - | - | - | - | - | (914) | (914) |
| Other changes in capital surplus: | | | | | | | | | | | |
| Changes in percentage of ownership interests in subsidiaries, associates and joint ventures | - | - | (3) | - | - | - | - | - | (3) | 21,987 | 21,984 |
| Equity component of issuance on convertible bonds | - | - | 54,892 | - | - | - | - | - | 54,892 | - | 54,892 |
| Net profit for the year ended December 31, 2017 | - | - | - | - | - | 1,066,226 | - | - | 1,066,226 | 7,306 | 1,073,532 |
| Other comprehensive income for the year ended December 31, 2017, net of income tax | - | - | - | - | - | (2,955) | (10,373) | 58,600 | 45,272 | (32) | 45,240 |
| Total comprehensive income for the year ended December 31, 2017 | - | - | - | - | - | 1,063,271 | (10,373) | 58,600 | 1,111,498 | 7,274 | 1,118,772 |
| Changes of non-controlling interests | - | - | - | - | - | - | - | - | - | 150,800 | 150,800 |
| Cancelation of treasury shares | 7,006 | 70,061 | 40,946 | - | - | - | - | - | 111,007 | - | 111,007 |
| BALANCE AT DECEMBER 31, 2017 | \$ 306,194 | \$ 3,061,937 | \$ 867,686 | \$ 654,386 | \$ 19,407 | \$ 1,638,702 | \$ (1,339) | \$ 30,159 | \$ 6,270,938 | \$ 207,391 | \$ 6,478,329 |

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

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|--|--------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 1,209,464 | \$ 811,280 |
| Adjustments for: | | |
| Depreciation expense | 77,138 | 75,797 |
| Amortization expense | 740 | 1,031 |
| Impairment loss on receivables | 34,385 | 8,793 |
| Net gain on fair value change of financial assets held for trading | (294,293) | (9,136) |
| Net loss (gain) on fair value change of financial liabilities held for trading | 24,856 | (5,556) |
| Finance costs | 111,489 | 94,132 |
| Interest income | (958) | (985) |
| Dividend income | (83,483) | (61,876) |
| Compensation costs of employee share options | - | 1,424 |
| Share of profit of associates and joint ventures | (3,873) | (688) |
| Loss (gain) on disposal of property, plant and equipment | 208 | 3,926 |
| Gain on disposal of associates | 10,037 | (102,218) |
| Net loss on disposal of available-for-sale financial assets | 55,796 | - |
| Impairment loss recognized on available-for-sale financial assets | 3,860 | 1,715 |
| Write-downs (reversal of write-downs) of inventories | 9,241 | (305,355) |
| Net (gain) loss on foreign currency exchange | (47,116) | 782 |
| Net defined benefit liabilities | 5,160 | (21,262) |
| Gain from bargain purchase - acquisition of associates | (211,110) | - |
| Changes in operating assets and liabilities | | |
| Decrease (Increase) in financial assets held for trading | 129,527 | (205,321) |
| Increase in notes receivable | (52,189) | (9,181) |
| Decrease (increase) in trade receivables | 74,102 | (205,929) |
| Decrease in amounts due from customers for construction contracts | 2,345 | 5,378 |
| Decrease (increase) in other receivables | 57,637 | (61,443) |
| (Increase) decrease in inventories | (494,709) | 25,878 |
| Increase in prepayments | (39,120) | (21,210) |
| Decrease (increase) in other current assets | (16,800) | 2,105 |
| Increase in notes payable | 3,838 | 335,200 |
| (Decrease) increase in trade payables | (60,679) | 42,425 |
| (Decrease) increase in other payables | (81,670) | 160,674 |
| Increase in other current liabilities | 28,341 | 41,057 |
| Cash generated from operating activities | 452,164 | 601,437 |
| Interest received | 958 | 985 |
| Dividends received | 83,483 | 61,876 |
| Income tax paid | (17,648) | (766) |
| Net cash generated from operating activities | 518,957 | 663,532 |

(Continued)

HSIN KUANG STEEL COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|---|--------------------|-------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of available-for-sale financial assets | \$ (47,729) | \$ (39,142) |
| Proceeds from sale of available-for-sale financial assets | 246,434 | - |
| Proceeds from the capital reduction of available-for-sale financial assets | 9,731 | 12,450 |
| Acquisition of joint ventures | (302,677) | - |
| Net cash outflow on acquisition of subsidiaries | (594) | - |
| Proceeds from disposal of non-current assets held for sale | - | 246,137 |
| Payments for property, plant and equipment | (851,031) | (278,057) |
| Proceeds from disposal of property, plant and equipment | 2,120 | 14,084 |
| Increase in refundable deposits | (84) | (40,466) |
| Payments for investment properties | - | (239,222) |
| Increase (decrease) in other current financial assets | (20,173) | 10,234 |
| Increase in prepayments for equipment | (55,209) | (49,771) |
| Dividends received from associates | 634 | 763 |
| Net cash used in investing activities | <u>(1,018,578)</u> | <u>(362,990)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | 10,023,901 | 8,558,258 |
| Repayments of short-term borrowings | (9,885,397) | (8,766,874) |
| Increase (decrease) in short-term bills payable | 280,000 | (510,000) |
| Proceeds from issue of convertible bonds | 601,200 | - |
| Proceeds from long-term borrowings | 750,000 | 823,900 |
| Repayments of long-term borrowings | (617,666) | (504,481) |
| Dividends paid | (551,149) | (165,976) |
| Proceeds from issue of ordinary shares under employee share options | - | 14,227 |
| Interest paid | (102,959) | (76,834) |
| Decrease in non-controlling interests | 149,886 | (3,898) |
| Net cash generated from (used in) financing activities | <u>647,816</u> | <u>(631,678)</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | <u>(6,170)</u> | <u>993</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 142,025 | (330,143) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | <u>668,153</u> | <u>998,296</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | <u>\$ 810,178</u> | <u>\$ 668,153</u> |

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

Independent Auditor's Report and 2017 Individual Financial Statements

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hsin Kuang Steel Company Limited

Opinion

We have audited the accompanying financial statements of Hsin Kuang Steel Company Limited (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and 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 Financial Statements section of our report. We are independent of the Company 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 financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Estimated Impairment of Trade Receivables

As of December 31, 2017, the net amount of notes receivable, trade receivables and overdue receivables, in New Taiwan dollars ("NT\$"), was NT\$2,272,799 thousand, representing 17% of the Company's total assets. When the management estimates the recoverability of note receivables, trade receivables and overdue receivables, it is based on the objective impairment evidence of the individual receivables and the condition of collateral or other credit enhancements. When there is no objective impairment evidence, the allowance for impairment loss recognized against trade receivables is based on historical experience with the counterparties and the aging of receivables. Since the amount of trade receivables is significant for the financial statements and the estimation of impairment of notes receivable, trade receivables and overdue receivables is subject to management's judgment, it has been identified as a key audit matter.

Refer to Notes 4, 5 and 9 to the accompanying financial statements for the accounting policies and related information on the estimated impairment of trade receivables.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of key control over the estimated impairment of trade receivables;
2. Obtained the accounting policies for the provision of impairment of trade receivables and the aging report in order to confirm whether the sales customers have credit insurance or collateral, assessed the overall economic situation, and assessed the reasonableness of management's assumptions on the estimated impairment of trade receivables and the reasonableness of the customer credit management;
3. Tested the completeness and accuracy of the aging of receivables, compared the aging report to those of previous years, reviewed the bad debt write-offs in the current year and the prior year, and checked the recoverability of outstanding debts;
4. Examined and assessed the reasonableness of the overdue receivables of subsequent-to-period-end cash receipts, and considered if additional provisions were required.

Investments in Associates and Joint Ventures

In the year of 2017, the Company incurred NT\$206,762 thousand gain on bargain purchase from the 49% equity acquisition of Mason Metal Industry Co., Ltd. To comply with the accounting treatment for the transaction of investments in associates and joint ventures, the management needs to determine the fair value of identifiable assets and liabilities, and such process involves some subjective and hypothetical judgements for the future cash flows, asset values, discount rates and etc., with a certain degree of complexity. If the fair value assessment is not appropriate, the financial statements will be misstated, so the gain from bargain purchase in investments in associates and joint ventures has been identified as a key audit matter.

Refer to Notes 4 and 12 to the accompanying financial statements for the accounting policies and related information on the investments in associates and joint ventures.

For our audit procedures performed in respect of the above area, we:

1. Acquired and examined the contracts of equity acquisition and the relating report of purchase price allocation issued by external appraisal experts.
2. Assigned the internal appraisal experts of the firm to assist the auditors in assessing the reasonableness of the assumptions used in determining the fair value of identifiable assets and liabilities in the report of purchase price allocation mentioned above.
3. Recalculated the gain on bargain purchase to confirm its accuracy and examined the relevant whether the disclosures of relevant information are complied with the accounting standards.

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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 the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our

auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chao-Ling Chen and Chiang-Pao Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 13, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail. Also, as stated in Note 4 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

HSIN KUANG STEEL COMPANY LIMITED

BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

| ASSETS | 2017 | | 2016 | |
|--|---------------|-----|---------------|-----|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | \$ 707,695 | 5 | \$ 512,490 | 4 |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7) | 503,339 | 4 | 522,760 | 5 |
| Available-for-sale financial assets - current (Notes 4 and 8) | 81,767 | 1 | 330,402 | 3 |
| Notes receivable (Notes 4, 5, 9, 31 and 32) | 1,016,708 | 7 | 972,621 | 9 |
| Trade receivables (Notes 4, 5, 9 and 31) | 1,253,091 | 9 | 1,253,978 | 11 |
| Other receivables (Notes 9 and 31) | 501 | - | 13,651 | - |
| Inventories (Notes 4, 5 and 10) | 2,743,288 | 20 | 2,197,079 | 19 |
| Prepayments | 80,896 | 1 | 38,464 | - |
| Other current financial assets (Notes 4, 11 and 32) | 87,706 | 1 | 65,576 | 1 |
| Other current assets (Note 15) | 207 | - | 429 | - |
| Total current assets | 6,475,198 | 48 | 5,907,450 | 52 |
| NON-CURRENT ASSETS | | | | |
| Available-for-sale financial assets - non-current (Notes 4, 8 and 32) | 1,850,769 | 14 | 1,811,627 | 16 |
| Investments accounted for using the equity method (Notes 4 and 12) | 1,351,258 | 10 | 512,323 | 4 |
| Property, plant and equipment (Notes 4, 13 and 32) | 3,595,147 | 26 | 2,807,392 | 25 |
| Investment properties (Notes 4, 14 and 32) | 268,846 | 2 | 271,313 | 2 |
| Deferred tax assets (Notes 4 and 24) | 13,498 | - | 6,422 | - |
| Other non-current assets (Notes 4, 5, 9 and 15) | 57,731 | - | 71,150 | 1 |
| Total non-current assets | 7,137,249 | 52 | 5,480,227 | 48 |
| TOTAL | \$ 13,612,447 | 100 | \$ 11,387,677 | 100 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 4 and 16) | \$ 3,449,674 | 25 | \$ 3,202,344 | 28 |
| Short-term bills payable (Notes 4 and 16) | 469,508 | 4 | 189,774 | 2 |
| Financial liabilities at fair value through profit or loss - current (Notes 4 and 7) | 38,012 | - | 91 | - |
| Notes payable (Notes 4, 18 and 31) | 424,271 | 3 | 433,608 | 4 |
| Trade payables (Notes 4, 18 and 31) | 9,820 | - | 73,151 | - |
| Other payables (Note 19) | 147,742 | 1 | 128,613 | 1 |
| Current tax liabilities (Notes 4 and 24) | 131,731 | 1 | 10,679 | - |
| Current portion of long-term borrowings and bonds payable (Notes 4, 16 and 17) | 1,010,526 | 8 | 308,418 | 3 |
| Other current liabilities | 104,325 | 1 | 75,935 | 1 |
| Total current liabilities | 5,785,609 | 43 | 4,422,613 | 39 |
| NON-CURRENT LIABILITIES | | | | |
| Bonds payable (Notes 4 and 17) | 532,148 | 4 | - | - |
| Long-term borrowings (Notes 4 and 16) | 737,512 | 5 | 1,396,658 | 12 |
| Provisions - non-current (Note 4) | 3,570 | - | - | - |
| Net defined benefit liabilities - non-current (Notes 4 and 20) | 27,780 | - | 19,692 | - |
| Deferred tax liabilities (Notes 4 and 24) | 4,590 | - | 3,721 | - |
| Other non-current liabilities (Note 4) | 250,300 | 2 | 300 | - |
| Total non-current liabilities | 1,555,900 | 11 | 1,420,371 | 12 |
| Total liabilities | 7,341,509 | 54 | 5,842,984 | 51 |
| EQUITY (Notes 4 and 21) | | | | |
| Share capital | 3,061,937 | 23 | 2,991,876 | 26 |
| Capital surplus | 867,686 | 6 | 1,016,806 | 9 |
| Retained earnings | | | | |
| Legal reserve | 654,386 | 5 | 579,610 | 5 |
| Special reserve | 19,407 | - | 231,141 | 2 |
| Unappropriated earnings | 1,638,702 | 12 | 744,667 | 7 |
| Total retained earnings | 2,312,495 | 17 | 1,555,418 | 14 |
| Other equity | 28,820 | - | (19,407) | - |
| Total equity | 6,270,938 | 46 | 5,544,693 | 49 |
| TOTAL | \$ 13,612,447 | 100 | \$ 11,387,677 | 100 |

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

HSIN KUANG STEEL COMPANY LIMITED

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

| | 2017 | | 2016 | |
|---|--------------------|-------------|--------------------|-------------|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 4, 22 and 31) | \$ 8,167,783 | 100 | \$ 6,262,775 | 100 |
| OPERATING COSTS (Notes 23 and 31) | <u>(7,134,503)</u> | <u>(87)</u> | <u>(5,364,745)</u> | <u>(86)</u> |
| GROSS PROFIT | <u>1,033,280</u> | <u>13</u> | <u>898,030</u> | <u>14</u> |
| OPERATING EXPENSES (Notes 4 and 23) | | | | |
| Selling and marketing expenses | (183,472) | (2) | (138,688) | (2) |
| General and administrative expenses | <u>(145,392)</u> | <u>(2)</u> | <u>(88,534)</u> | <u>(1)</u> |
| Total operating expenses | <u>(328,864)</u> | <u>(4)</u> | <u>(227,222)</u> | <u>(3)</u> |
| OTHER OPERATING INCOME AND EXPENSES (Note 23) | <u>159,076</u> | <u>2</u> | <u>69,644</u> | <u>1</u> |
| PROFIT FROM OPERATIONS | <u>863,492</u> | <u>11</u> | <u>740,452</u> | <u>12</u> |
| NON-OPERATING INCOME AND EXPENSES (Notes 4 and 23) | | | | |
| Other income | 13,232 | - | 11,534 | - |
| Other gains and losses | 105,063 | 1 | 40,570 | 1 |
| Finance costs | (106,240) | (1) | (90,316) | (2) |
| Gain from bargain purchase - acquisition of associates and joint ventures | 206,762 | 3 | - | - |
| Share of profit or loss of subsidiaries and joint ventures | <u>117,648</u> | <u>1</u> | <u>106,450</u> | <u>2</u> |
| Total non-operating income and expenses | <u>336,465</u> | <u>4</u> | <u>68,238</u> | <u>1</u> |
| PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS | 1,199,957 | 15 | 808,690 | 13 |
| INCOME TAX EXPENSE (Notes 4 and 24) | <u>(133,731)</u> | <u>(2)</u> | <u>(60,916)</u> | <u>(1)</u> |
| NET PROFIT FOR THE YEAR | <u>1,066,226</u> | <u>13</u> | <u>747,774</u> | <u>12</u> |
| OTHER COMPREHENSIVE INCOME | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Remeasurement of defined benefit plans | <u>(2,955)</u> | <u>-</u> | <u>(3,107)</u> | <u>-</u> |

(Continued)

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

| | <u>2017</u> | | <u>2016</u> | |
|--|---------------------|-----------|---------------------|-----------|
| | Amount | % | Amount | % |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating the financial statements of foreign operations | \$ (10,373) | - | \$ (8,489) | - |
| Unrealized gain on available-for-sale financial assets | <u>58,600</u> | <u>1</u> | <u>471,450</u> | <u>7</u> |
| | <u>48,227</u> | <u>1</u> | <u>462,961</u> | <u>7</u> |
| Other comprehensive income for the year, net of income tax | <u>45,272</u> | <u>1</u> | <u>459,854</u> | <u>7</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 1,111,498</u> | <u>14</u> | <u>\$ 1,207,628</u> | <u>19</u> |
| EARNINGS PER SHARE (Note 25) | | | | |
| From continuing operations | | | | |
| Basic | <u>\$ 3.49</u> | | <u>\$ 2.67</u> | |
| Diluted | <u>\$ 3.30</u> | | <u>\$ 2.62</u> | |

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

(Concluded)

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

| | Share Capital | | Capital Surplus | Retained Earnings | | | Other Equity | | Total Equity |
|--|------------------------------------|---------------------|---------------------|-------------------|------------------|----------------------------|---|--|---------------------|
| | Number of Shares (In Thousands) | Amount | | Legal Reserve | Special Reserve | Unappropriated Earnings | Exchange Differences on Translating Foreign Operations | Unrealized Losses on Available-for- sale Financial Assets | |
| BALANCE AT JANUARY 1, 2016 | <u>275,638</u> | <u>\$ 2,756,380</u> | <u>\$ 1,045,575</u> | <u>\$ 579,610</u> | <u>\$ -</u> | <u>\$ 231,141</u> | <u>\$ 17,523</u> | <u>\$ (499,891)</u> | <u>\$ 4,130,338</u> |
| Special reserve under Rule No. 1010012865 issued by the FSC | - | - | - | - | 231,141 | (231,141) | - | - | - |
| Appropriation of 2015 earnings | | | | | | | | | |
| Cash dividends distributed from capital surplus | - | - | (165,976) | - | - | - | - | - | (165,976) |
| Other changes in capital surplus | | | | | | | | | |
| Recognition of employee share options by the Company | - | - | 1,424 | - | - | - | - | - | 1,424 |
| Changes in percentage of ownership interest in subsidiaries | - | - | 66 | - | - | - | - | - | 66 |
| Convertible bonds converted to ordinary shares | 22,562 | 225,616 | 131,370 | - | - | - | - | - | 356,986 |
| Net profit for the year ended December 31, 2016 | - | - | - | - | - | 747,774 | - | - | 747,774 |
| Other comprehensive income for the year ended December 31, 2016, net of income tax | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(3,107)</u> | <u>(8,489)</u> | <u>471,450</u> | <u>459,854</u> |
| Total comprehensive income for the year ended December 31, 2016 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>744,667</u> | <u>(8,489)</u> | <u>471,450</u> | <u>1,207,628</u> |
| Issuance of ordinary shares under employee share options | <u>988</u> | <u>9,880</u> | <u>4,347</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,227</u> |
| BALANCE AT DECEMBER 31, 2016 | 299,188 | 2,991,876 | 1,016,806 | 579,610 | 231,141 | 744,667 | 9,034 | (28,441) | 5,544,693 |
| Special reserve reversed under Rule No. 1010012865 issued by the FSC | - | - | - | - | (211,734) | 211,734 | - | - | - |
| Appropriation of 2016 earnings | | | | | | | | | |
| Legal reserve | - | - | - | 74,776 | - | (74,776) | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (306,194) | - | - | (306,194) |
| Cash dividends distributed from capital surplus | - | - | (244,955) | - | - | - | - | - | (244,955) |
| Other changes in capital surplus | | | | | | | | | |
| Equity Component of issuance of convertible bonds | - | - | 54,892 | - | - | - | - | - | 54,892 |
| Changes in percentage of ownership interests in subsidiaries, associates, and joint ventures | - | - | (3) | - | - | - | - | - | (3) |
| Net profit for the year ended December 31, 2017 | - | - | - | - | - | 1,066,226 | - | - | 1,066,226 |
| Other comprehensive income for the year ended December 31, 2017, net of income tax | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,955)</u> | <u>(10,373)</u> | <u>58,600</u> | <u>45,272</u> |
| Total comprehensive income for the year ended December 31, 2017 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,063,271</u> | <u>(10,373)</u> | <u>58,600</u> | <u>1,111,498</u> |
| Convertible bonds converted to ordinary shares | <u>7,006</u> | <u>70,061</u> | <u>40,946</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>111,007</u> |
| BALANCE AT DECEMBER 31, 2017 | <u>306,194</u> | <u>\$ 3,061,937</u> | <u>\$ 867,686</u> | <u>\$ 654,386</u> | <u>\$ 19,407</u> | <u>\$ 1,638,702</u> | <u>\$ (1,339)</u> | <u>\$ 30,159</u> | <u>\$ 6,270,938</u> |

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

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|---|--------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 1,199,957 | \$ 808,690 |
| Adjustments for: | | |
| Depreciation expenses | 77,138 | 73,330 |
| Amortization expenses | 690 | 529 |
| Impairment loss on receivables | 34,217 | 8,793 |
| Net gain on fair value changes of financial assets held for trading | (163,629) | (8,308) |
| Net loss (gain) on fair value changes of financial liabilities held for trading | 24,856 | (5,556) |
| Finance costs | 106,240 | 90,316 |
| Interest income | (775) | (913) |
| Dividend income | (79,959) | (57,495) |
| Compensation costs of employee share options | - | 1,424 |
| Share of profit of subsidiaries, associates and joint ventures | (117,648) | (106,450) |
| Loss on disposal of property, plant and equipment | 518 | 3,156 |
| Net loss on disposal of available-for-sale financial assets | 55,796 | - |
| Impairment loss recognized on available-for-sale financial assets | 3,860 | 1,715 |
| Write-downs (reversal of write-downs) of inventories | 1,986 | (302,350) |
| Net gain on foreign currency exchange | (47,836) | (1,908) |
| Net defined benefit liabilities | 5,160 | (21,262) |
| Gain from bargain purchase - acquisition of associates | (206,762) | - |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in financial assets held for trading | 183,050 | (159,198) |
| (Increase) decrease in notes receivable | (44,239) | 3,559 |
| Decrease (increase) in trade receivables | 2,091 | (167,711) |
| Decrease (increase) in other receivables | 13,150 | (6,919) |
| (Increase) decrease in inventories | (548,195) | 35,788 |
| Increase in prepayments | (42,432) | (24,213) |
| Decrease in other current assets | 222 | 2,073 |
| (Decrease) increase in notes payable | (9,337) | 352,175 |
| (Decrease) increase in trade payables | (65,026) | 47,803 |
| Increase in other payables | 19,042 | 58,039 |
| Increase in other current liabilities | 28,390 | 41,068 |
| Cash generated from operations | 430,525 | 666,175 |
| Interest received | 775 | 913 |
| Dividends received | 79,959 | 57,495 |
| Income tax paid | (16,763) | (48) |
| Net cash generated from operating activities | 494,496 | 724,535 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of available-for-sale financial assets | (47,729) | (442) |
| Proceeds from sale of available-for-sale financial assets | 246,434 | - |
| Proceeds from the capital reduction of available-for-sale financial assets | 9,731 | 12,450 |

(Continued)

HSIN KUANG STEEL COMPANY LIMITED

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|---|--------------------|-------------------|
| Acquisition of associates and joint ventures | \$ (296,976) | \$ - |
| Net cash outflow on acquisition of subsidiaries | (231,700) | (16,625) |
| Payments for property, plant and equipment | (836,119) | (52,642) |
| Proceeds from disposal of property, plant and equipment | 1,549 | 1,605 |
| Increase in refundable deposits | (84) | (16,738) |
| Payments for investment properties | - | (239,222) |
| Decrease in other financial assets | (22,130) | 7,816 |
| Increase in prepayments for equipment | (55,209) | (49,771) |
| Dividends received from subsidiaries and associates | <u>5,220</u> | <u>161,903</u> |
| Net cash used in investing activities | <u>(1,227,013)</u> | <u>(191,666)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | 9,761,730 | 8,184,440 |
| Repayments of short-term borrowings | (9,460,638) | (8,481,302) |
| Increase (decrease) in short-term bills payable | 280,000 | (510,000) |
| Proceeds from issue of convertible bonds | 601,200 | - |
| Proceeds from long-term borrowings | 750,000 | 600,000 |
| Repayments of long-term borrowings | (600,000) | (500,000) |
| Proceeds from guarantee deposits received | 250,000 | - |
| Dividends paid | (551,149) | (165,976) |
| Proceeds from issue of ordinary shares under employee share options | - | 14,227 |
| Interest paid | <u>(103,421)</u> | <u>(73,117)</u> |
| Net cash generated from (used in) financing activities | <u>927,722</u> | <u>(931,728)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 195,205 | (398,859) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | <u>512,490</u> | <u>911,349</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | <u>\$ 707,695</u> | <u>\$ 512,490</u> |

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

Hsin Kuang Steel Co., Ltd.
Earnings distribution statement
2017

Unit: NT\$

| Item | Amount |
|---|-------------------------|
| Net profit in 2017 | 1,066,226,100.00 |
| Minus : | |
| —Ten percent set aside as the statutory surplus reserve | -106,622,610.00 |
| Distributable earnings in 2017 | 959,603,490.00 |
| Plus : | |
| —Unappropriated retained earnings from previous years | 575,430,215.00 |
| —Reversal of special surplus reserve | 19,405,847.00 |
| Minus : | |
| —Actuarial losses on defined benefit plan of the year | -2,955,201.00 |
| Retained earnings available for distribution as of the end of 2017 | 1,551,484,351.00 |
| Distributions : | |
| —Common stock cash dividend (NT\$1.50 per share) | -459,290,609.00 |
| Undistributed retained earnings at the end of the period transferred to following year | 1,092,193,742.00 |

Hsin Kuang Steel Co., Ltd.

Table of Comparison of Revised Articles of the Company's "Procedures for the Acquisition or Disposal of Assets"

18th Revision on March 13, 2018

| Revised content (underlined) | Original content |
|---|--|
| <p>Article 7 Restrictions on the total amount of real property and securities acquired by the Company not for business use</p> <p>1.The restrictions on the total amount of real property and securities acquired by the Company not for business use are as follows:</p> <p>(1)Total amounts for the purchase of real estate not for business use may not exceed thirty percent (30%) of the net value of the Company's most recent financial statements.</p> <p>(2)The maximum amount of investment in securities may not exceed <u>eighty percent (80%)</u> of the net value of the Company's most recent financial statements.</p> <p>(3)The maximum amount of investment in individual securities may not exceed <u>sixty percent (60%)</u> of the net value of the Company's most recent financial statements.</p> <p>2.The restrictions on the total amount of real property and securities acquired by subsidiaries of the Company not for business use are as follows:</p> <p>(1)Total amounts for the purchase of real estate not for business use may not exceed ten percent (10%) of the net value of the subsidiary's most recent financial statements.</p> <p>(2)The maximum amount of investment in securities may not exceed fifty percent (50%) of the net value of the subsidiary's most recent financial statements. However, if the subsidiary is a professional investment company, the maximum amount shall be one hundred percent (100%) of the net value of the subsidiary's most recent financial statements.</p> <p>(3)The maximum amount of investment in individual securities may not exceed twenty-five percent (25%) of the net value of the subsidiary's most recent financial statements.</p> <p>3.The amount of investment in stocks of public companies permitted for the Company and its subsidiaries shall be processed in accordance with the Company's "Securities Investment Management Regulations".</p> | <p>Article 7 Restrictions on the total amount of real property and securities acquired by the Company not for business use</p> <p>1.The restrictions on the total amount of real property and securities acquired by the Company not for business use are as follows:</p> <p>(1)Total amounts for the purchase of real estate not for business use may not exceed thirty percent (30%) of the net value of the Company's most recent financial statements.</p> <p>(2)The maximum amount of investment in securities may not exceed one hundred percent (100%) of the net value of the Company's most recent financial statements.</p> <p>(3)The maximum amount of investment in individual securities may not exceed eighty percent (80%) of the net value of the Company's most recent financial statements.</p> <p>2.The restrictions on the total amount of real property and securities acquired by subsidiaries of the Company not for business use are as follows:</p> <p>(1)Total amounts for the purchase of real estate not for business use may not exceed ten percent (10%) of the net value of the subsidiary's most recent financial statements.</p> <p>(2)The maximum amount of investment in securities may not exceed fifty percent (50%) of the net value of the subsidiary's most recent financial statements. However, if the subsidiary is a professional investment company, the maximum amount shall be one hundred percent (100%) of the net value of the subsidiary's most recent financial statements.</p> <p>(3)The maximum amount of investment in individual securities may not exceed twenty-five percent (25%) of the net value of the subsidiary's most recent financial statements.</p> <p>3.The amount of investment in stocks of public companies permitted for the Company and its subsidiaries shall be processed in accordance with the Company's "Securities Investment Management Regulations".</p> |

| Revised content (underlined) | Original content | | | | | | | | | | | | | | |
|--|--|---------------------------|---------------------------|----------------------------------|------------------------------|------------------------------|------------------------|------------------------------|---|---------------------------|---------------------------|----------------------------------|--|------------------------------------|---|
| <p>Article 8 Procedures for Assessment and Acquisition of Securities</p> <p>2.Degree and levels of authority delegated</p> <p>(1)<u>Acquisition or disposal of securities traded on the TWSE or OTC shall be processed by the transaction executor after assessment based on the following delegated authority:</u></p> <table border="1" data-bbox="172 439 766 631"> <tr> <th><u>Level</u></th><th><u>Transaction Amount</u></th></tr> <tr> <td><u>Board of Directors</u></td><td><u>More than NT\$100 million</u></td></tr> <tr> <td><u>Chairman of the Board</u></td><td><u>Below NT\$100 million</u></td></tr> <tr> <td><u>General Manager</u></td><td><u>Below NT\$50 million</u></td></tr> </table> <p>(2)<u>Acquisition or disposal of securities traded on the TWSE or OTC shall be assessed and reported by the transaction executor after assessment and implemented after receiving approval from the Board of Directors. However, the Board of Directors may authorize the Chairman to process the acquisition or disposal based on the following scope of authorization before reporting to the Board of Directors for retroactive ratification:</u></p> <table border="1" data-bbox="172 918 766 1223"> <tr> <th><u>Level</u></th><th><u>Transaction Amount</u></th></tr> <tr> <td><u>Board of Directors</u></td><td><u>More than NT\$100 million</u></td></tr> <tr> <td><u>The case shall be approved and reported by the Chairman to the next Board meeting for retroactive ratification.</u></td><td><u>NT\$100 million (inclusive)</u></td></tr> </table> | <u>Level</u> | <u>Transaction Amount</u> | <u>Board of Directors</u> | <u>More than NT\$100 million</u> | <u>Chairman of the Board</u> | <u>Below NT\$100 million</u> | <u>General Manager</u> | <u>Below NT\$50 million</u> | <u>Level</u> | <u>Transaction Amount</u> | <u>Board of Directors</u> | <u>More than NT\$100 million</u> | <u>The case shall be approved and reported by the Chairman to the next Board meeting for retroactive ratification.</u> | <u>NT\$100 million (inclusive)</u> | <p>Article 8 Procedures for Assessment and Acquisition of Securities</p> <p>2.Degree and levels of authority delegated</p> <p>(1)Acquisition or disposal of securities traded on the TWSE or OTC with a transaction amount of NT\$50 million (inclusive) or below shall be submitted to the General Manager for approval with an internal approval document: Transaction amounts above NT\$50 million shall require the approval of the Board of Directors.</p> <p>(2)Acquisition or disposal of securities traded on the TWSE or OTC shall be implemented only after the approval of the Board of Directors. However, the Board of Directors may authorize the Chairman to determine an acquisition or disposal within NT\$50 million before reporting to the Board of Directors for retroactive ratification.</p> |
| <u>Level</u> | <u>Transaction Amount</u> | | | | | | | | | | | | | | |
| <u>Board of Directors</u> | <u>More than NT\$100 million</u> | | | | | | | | | | | | | | |
| <u>Chairman of the Board</u> | <u>Below NT\$100 million</u> | | | | | | | | | | | | | | |
| <u>General Manager</u> | <u>Below NT\$50 million</u> | | | | | | | | | | | | | | |
| <u>Level</u> | <u>Transaction Amount</u> | | | | | | | | | | | | | | |
| <u>Board of Directors</u> | <u>More than NT\$100 million</u> | | | | | | | | | | | | | | |
| <u>The case shall be approved and reported by the Chairman to the next Board meeting for retroactive ratification.</u> | <u>NT\$100 million (inclusive)</u> | | | | | | | | | | | | | | |
| <p>Article 9 Evaluation and Operating Procedures for the Acquisition or Disposal of Real Property or Other Fixed Assets</p> <p>3.Degree and levels of authority delegated</p> <p>The acquisition or disposal of real property or other fixed assets <u>may be executed directly by the transaction executor according to the Company's related internal policies based on the following delegated authority:</u></p> <table border="1" data-bbox="153 1478 766 1637"> <tr> <th><u>Level</u></th><th><u>Transaction Amount</u></th></tr> <tr> <td><u>Board of Directors</u></td><td><u>More than NT\$300 million</u></td></tr> <tr> <td><u>Chairman of the Board</u></td><td><u>Below NT\$300 million</u></td></tr> <tr> <td><u>General Manager</u></td><td><u>Below NT\$100 million</u></td></tr> </table> | <u>Level</u> | <u>Transaction Amount</u> | <u>Board of Directors</u> | <u>More than NT\$300 million</u> | <u>Chairman of the Board</u> | <u>Below NT\$300 million</u> | <u>General Manager</u> | <u>Below NT\$100 million</u> | <p>Article 9 Evaluation and Operating Procedures for the Acquisition or Disposal of Real Property or Other Fixed Assets</p> <p>3.Degree and levels of authority delegated</p> <p>Acquisition or disposal of real property or other fixed assets with a transactions amount of NT\$100 million (inclusive) or below shall require internal approval procedures and shall be delivered to the General Manager for approval; Transaction amounts above NT\$100 million shall require the approval of the Board of Directors.</p> | | | | | | |
| <u>Level</u> | <u>Transaction Amount</u> | | | | | | | | | | | | | | |
| <u>Board of Directors</u> | <u>More than NT\$300 million</u> | | | | | | | | | | | | | | |
| <u>Chairman of the Board</u> | <u>Below NT\$300 million</u> | | | | | | | | | | | | | | |
| <u>General Manager</u> | <u>Below NT\$100 million</u> | | | | | | | | | | | | | | |
| <p>Article 20 Date of Revision</p> <p><u>The Operating Procedures are submitted to the shareholders meeting on June 19, 2018 for review.</u></p> <p>The 1st amendment was on May 26, 1994. ... The 15th amendment was on March 18, 2014. The 16th amendment was on March 17, 2015. The 17th amendment was on March 14, 2017.<u>The 18th amendment was on March 13, 2018.</u></p> | <p>Article 20 Date of Revision</p> <p>The Operating Procedures were passed in the shareholders meeting on June 10, 2015.</p> <p>The 1st amendment was on May 26, 1994. ... The 15th amendment was on March 18, 2014. The 16th amendment was on March 17, 2015. The 17th amendment was on March 14, 2017.</p> | | | | | | | | | | | | | | |

Hsin Kuang Steel Co., Ltd.

Rules of Procedure for the Shareholders' Meeting

- Article 1: To establish a strong governance system and sound supervisory capabilities for the Company's shareholders meetings, and to strengthen management capabilities, these Rules are adopted pursuant to Article 5 of the Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies.
- Unless otherwise specified by law or Articles of Incorporation, the company shall proceed its shareholders' meetings according to the terms of this policy.
- Unless otherwise specified by law or Articles of Incorporation, shareholders' meetings are convened by the board of directors.
- Election or dismissal of Directors or Supervisors, amendments to the Articles of Incorporation, the dissolution, merger, or demerger of the Company, any matter under Article 185, Paragraph 1 of the Company Act, and Articles 26-1 and 43-6 of the Securities and Exchange Act or Article 56-1 and Article 60-2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers shall be set out in the notice of the reasons for convening the shareholders meeting. None of the above matters may be raised through an extraordinary motion.
- Article 2: Shareholders attending the meeting in person (or their proxies) shall wear attendance and present badges and shall submit sign-in cards in lieu of signing in. The Company's weight of share ownership in attendance shall be based on the weight of share ownership in the submitted sign-in cards, plus the weight of share ownership exercised via electronic voting.
- The shareholders referred to in the Rules shall be based on the records in the Company's list of shareholders.
- Article 3: Each shareholder of the Company shall be entitled to one vote for each share held, except when the shares are restricted shares or are deemed non-voting shares under Article 179, Paragraph 2 of the Company Act. The votes that may be cast by one proxy representing two or more shareholders shall not exceed three percent of the votes of total shares issued; any votes in excess of that limit shall not be counted.
- The related regulations in Article 177, Article 177-1, and Article 177-2 of the Company Act shall apply mutatis mutandis to the Company's regulations on attendance of proxies of shareholders, the exercise of voting rights, and expression of opinions.
- Votes in a shareholders' meeting are determined by the number of shares represented during the meeting.
- Except in the exercise of voting rights for electing Directors and Supervisors, when a shareholder is an interested party in relation to an agenda item, and there is the likelihood that such a relationship would prejudice the interests of the Company, that shareholder may not vote on that item, and may not exercise voting rights as proxy for any other shareholder. .
- Article 4: Shareholders in attendance are obligated to follow the rules of the meeting, accept the resolution, and maintain the order of the meeting.
- Article 5: Unless otherwise specified in these Rules, shareholder meetings shall be convened by the Board of Directors and chaired by the Chairman. If the Chairman is unable to perform such duties due to leave of absence or any other reason, the Chairman shall appoint one of the directors to act on the Chairman's behalf. If no delegate is appointed by the Chairman, one shall be elected from among the directors to act on

the Chairman's behalf. If a shareholders meeting is convened by someone having the right to convene a meeting, but who is not a member of the Board of Directors, the said person shall chair the meeting. If more than one person has the right to convene the meeting, one shall be elected to chair the meeting.

Article 6: The Company may designate retained lawyers, certified public accountants or relevant personnel to attend the shareholders' meeting.

It is advisable that shareholders meetings convened by the Board of Directors be attended by a majority of the Directors and at least one Supervisor who attends the meeting in person. The attendance records shall be included in the meeting minutes of the shareholders meeting.

Organizers of the meeting must wear proper identification or arm badges.

Article 7: The Company shall record the whole course of the shareholders' meeting on audio tape or video tape, and shall keep the tapes on file for at least one year.

Article 8: The chair shall announce the commencement of the meeting when the scheduled time arrives. If the number of shareholders present represents less than half of all voting rights, the chair may postpone the meeting. A meeting may be postponed twice for a combined maximum of thirty minutes (the first postponement shall be twenty minutes and the second postponement shall be ten minutes). If after two postponements the number of shareholders present is still insufficient while representing at least one third of the total issued shares, provisional resolutions may be adopted in accordance with Article 175 Paragraph 1 of the Company Act.

When, prior to conclusion of the meeting, the attending shareholders represent the legal required number of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders meeting pursuant to Article 174 of the Company Act.

Article 9: Agenda of a shareholders meeting called by the board shall be decided by the board. The meeting shall proceed according to the agenda unless changed by a shareholders meeting resolution.

If the shareholders' meeting is convened by someone entitled to convene such a meeting but who is not a member of the Board of Directors, the rules of the preceding paragraph shall apply *mutatis mutandis*.

Unless otherwise resolved at the meeting, the chairman may not announce adjournment of the meeting before all the discussion items (including special motions) listed in the agenda are resolved.

The shareholders cannot designate any other person as chairman and continue the Meeting in the same or another place after the Meeting is adjourned.

- Article 10: When a meeting is in progress, the chair may announce a break based on time considerations. If a force majeure event occurs, the chair may rule the meeting temporarily suspended and announce a time when, in view of the circumstances, the meeting will be resumed, or a resolution may be passed in the shareholders meeting to reconvene the meeting within five days without requiring service of notice or public announcement in accordance with Article 182 of the Company Act.
- Article 11: When a shareholder (or proxy) present at the meeting wishes to speak, a Speech Note shall be filled out with summary of the speech, the shareholder's number (or the number on their attendance card) and the name of the shareholder. The sequence of speeches by shareholders shall be decided by the chair. A shareholder (or proxy) present at the meeting that merely submits a statement slip without speaking is considered not to have spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. Unless given consent by the chair and the speaking shareholder (or proxy), other shareholders may not speak to interrupt when a shareholder is speaking; otherwise the chair shall stop the interruption.
- Article 12: Unless permitted by the chair, no shareholder may speak more than twice regarding the same proposal (including extempore motions), and shall not speak for more than five minutes each time.
If a shareholder violates the rules outlined in the preceding paragraph, goes beyond the scope of proposals in speaking, or affect the order of the meeting, the chair may stop him/her from speaking.
- Article 13: An institutional shareholder may assign only one proxy representative to attend the meeting on its behalf. In the event an institutional shareholder assigns two or more representatives to attend the shareholders' meeting, only one of the representatives may speak on any single agenda item.
- Article 14: After a shareholder present at the meeting speaks, the chair may reply in person or assign relevant personnel to reply.
- Article 15: The chair may announce to discontinue further discussions if the agenda is considered to have been sufficiently discussed to proceed with the voting.
- Article 16: The chair shall appoint personnel to monitor or count the votes. The individuals monitoring the votes, however, shall be the shareholders of the Company. Ballot counting will proceed openly during the meeting. The outcome of the vote must be documented and announced on site.
- Article 17: Except for special resolutions otherwise provided by the Company Act or the Articles of Incorporation, a proposal shall be approved by the consent of more than half of the votes of shares represented by shareholders present. If the voting method has been decided as a non-ballot vote prior to the vote and the chair has inquired whether there are any objections, the proposal shall be deemed as passed with the same validity as a ballot vote.
At the time of a vote, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders for each proposal. The shareholder shall vote on each proposal and the results of shareholders' agreement, objection, and abstention shall be input on the Market Observation Post System.

Article 18: A shareholder holding one percent or more of the total number of outstanding shares of the Company may submit to the company a written proposal for discussion at a general shareholders meeting within the period for accepting shareholders' proposals announced by the Company. Each shareholder may only submit one proposal. A shareholder who submits more than one proposal or a proposal with over 300 words shall not be included in the agenda. In addition, when the circumstances of any subparagraph of Article 172-1, Paragraph 4 of the Company Act apply to a proposal put forward by a shareholder, the Board of Directors may exclude it from the agenda.

The announced period of acceptance of shareholder proposals, the location and time period for their submission; the period for submission of shareholder proposals may not be less than 10 days.

Prior to the date for issuance of notice of a shareholders meeting, the Company shall inform the shareholders who submitted proposals of the proposal screening results, and shall list in the meeting notice the proposals that conform to the acceptance regulations. At the shareholders meeting the Board of Directors shall explain the reasons for exclusion of any shareholder proposals not included in the agenda.

Where there is an amendment or an alternative for a proposal, the chair shall determine the order in which they are to be voted on with the original proposal. If any of these proposals is approved, alternative proposals shall be treated as rejected and not be voted on separately.

Article 19: The chair may instruct the inspectors (or security personnel) to assist in maintaining order in the meeting venue. While maintaining order in the meeting, all marshals or security staff must wear arm bands which identify their roles as "Proctor."

At the place of a shareholders meeting, if a shareholder attempts to speak through any device other than the public address equipment set up by the Company, the chair may prevent the shareholder from so doing.

When a shareholder violates the rules of procedure and defies the chair's correction, obstructing the proceedings and refusing to heed calls to stop, the chair may direct the proctors or (security personnel) to escort the shareholder from the meeting.

Article 20: All matters not provided by these Rules herein shall be handled in accordance with the Company Act, relevant laws and regulations, as well as the Articles of Incorporation.

Article 21: These Rules shall come into force after a resolution in the Board of Directors meeting and on the approval of the shareholders' meeting. The same procedures shall apply for future amendments.

Article 22: Revision Date

The Rules of Procedure were passed in the shareholders meeting on June 15, 2016.

The 1st amendment was on May 26, 1994.

The 2nd amendment was on June 13, 1997.

The 3rd amendment was on May 21, 2002.

The 4th amendment was on April 27, 2004.

The 5th amendment was on March 21, 2006.

Hsin Kuang Steel Co., Ltd.

Articles of Incorporation

Chapter 1 General Provisions

Article 1: The Company is constituted in accordance with the Company Act, and shall be known as "Hsin Kuang Steel Company Limited."

Article 2: The business items operated by the Company are as follows:

- (1). Leveling of various steel coils; cutting and stamping of various steel plates, steel section, alloy steel, and special steels.
- (2). Wholesale and retail of various steel and iron plates, iron tubes, hardware, and machinery equipment.
- (3). Processing and manufacture of steel frames, building structures, steel tubes, and steel hardware.
- (4). Contracting vendors to build public housing and commercial buildings for sale and lease.
- (5). Import and export of aforementioned products and agency for quotation and tenders.
- (6). ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Article 3: The Company's head office is established at New Taipei City. Where necessary the Company may establish branches at appropriate domestic or overseas locations, subject to resolution by its Board of Directors.

Article 4: Public announcements of the Company shall be made in accordance with the Company Act and other relevant rules and regulations.

Chapter 2 Shares

Article 5: The Company's registered capital is NT\$3.6 billion, divided into 360 million shares with a face value of NT\$10 per share. Stock options of 20 million shares are set aside for employee subscription. The Board of Directors is authorized to issue the remainder in multiple installments.

Before issuing any employee stock options at a strike price which is lower than the closing price of the Company's common stocks on the date of issuance, the Company should firstly obtain the agreement of at least two-thirds of the voting rights present at the shareholders meeting attended by shareholders representing a majority of total issued shares.

Transfer of shares to employees at prices below the Company's average purchase price are subject to shareholders' meeting resolution and must be resolved with the presence of shareholders representing more than half of outstanding shares, and voted in favor by more than two-thirds of votes present in the meeting.

- Article 6: The Company's stocks shall be registered, and signed or sealed by at least three Directors. The stocks shall be issued after the proper certification procedures in accordance with the law.
Registered share certificates issued by the Company are not required to be printed. The Company, however, should contact the securities depository and custodian institution for registration of the share certificates.
- Article 7: Title transfer of stocks shall be not be allowed within sixty days before the general shareholders meeting is held, within thirty days before an extraordinary shareholders meeting is held, or within five days before the base date for distribution of stock dividends and bonuses or other benefits determined by the Company.
- Article 8: Unless otherwise specified by law, all stock-related affairs including transfer, creation of pledge, reporting of loss, transfer via inheritance, transfer via gift, application for lost or change of the specimen chop shall be handled according to "Regulations Governing the Administration of Shareholder Services of Public Companies."

Chapter 3 Shareholder's Meeting

- Article 9: Shareholders meetings include general meetings and special meetings. Unless otherwise provided in regulations, the shareholders' meeting shall be convened by the Board of Directors in accordance with laws. The annual general shareholders meeting is convened within six months of the end of each fiscal year by the Board of Directors. The organization of extraordinary shareholders meetings shall be governed by the relevant regulations.
- Article 10: Shareholders may attend meetings in person or appoint a proxy to attend a shareholders' meeting in his/her/its behalf by executing a power of attorney.
A shareholder who cannot attend shareholders' meeting may appoint a proxy to attend on his/her behalf by executing a power of attorney in accordance with Article 177 of the Company Act.
- Article 11: Shareholders of the Company shall be entitled to one vote for each share held, except for the circumstances described in Paragraph 2 under Article 179 of the Company Act where shareholders are restricted or prohibited from exercising voting rights.
According to regulations of the competent authority, the Company's shareholders may also exercise voting rights by means of electronic transmission. A shareholder who exercises his/her/its voting power at a shareholders meeting by way of electronic transmission shall be deemed to have attended the shareholders' meeting in person. Other related matters shall be carried out in accordance with regulations.
- Article 12: Unless otherwise stipulated in the Company Act, any resolutions in a shareholders' meeting should be approved by a majority vote at a meeting attended by shareholders representing at least one half of its outstanding shares.
- Article 13: The company shall have six to nine Directors. The number of Directors to be elected in each term shall be determined by the Board of Directors. In the number of Directors specified in the previous paragraph, the number of Independent Directors shall be no less than three and they shall not represent less than one-fifth of the directors to be elected.
Directors shall serve a term of three years and may be eligible for re-election.
Each share shall be empowered with voting rights equal to the number of elected directors in elections of Directors. These voting rights may be concentrated on one candidate or separated across a number of candidates. Candidates with the highest number of votes shall be elected as the Directors.
When the number of vacancies in the Board of Directors reaches one third of the total number of members, the Board of Directors shall call a meeting of shareholders to elect Directors to fill the vacancies. With the exception of a comprehensive reelection of

directors, the term of the newly-elected Director shall expire on the original expiry date of his/her predecessor.

The professional qualifications, restrictions on both shareholding and concurrent positions held, determination of independence, method of nomination, and other requirements with regard to the Independent Directors shall be set forth in accordance with the Securities and Exchange Act and other relevant regulations.

The total proportion of shares held by all Directors of the Company shall be determined in accordance with regulations of the competent authority responsible for securities.

Article 13-1: Shareholders retaining at least 1% of all outstanding shares and the board may nominate candidates for independent directorship. A list of candidates determined at board meetings to meet the criteria for being elected independent directors are submitted by the board to the shareholders meeting for consideration; if the shareholder's meeting is convened by another person with the authority to convene the meeting, after the person with the authority to convene the meeting examines the qualifications of the candidate(s) for serving as an independent director, the names are sent to the shareholder's meeting for election. All matters regarding the acceptance method and announcement of the nomination of candidates for independent director will be handled according to the Company Act, the Securities and Exchange Act, and other applicable laws and regulations.

Article 13-2: Starting from the 14th-term Board of Directors, the Company shall establish an Audit Committee in accordance with Article 13-2. Upon the establishment of the Audit Committee, the regulations regarding supervisors in the Articles of Incorporation shall cease to apply and the supervisors shall be dismissed at the same time.

The Company has established an Audit Committee in accordance with regulations in Article 14-4 of the Securities and Exchange Act. The Audit Committee shall consist of all independent directors and its powers and related matters shall be devised by the Board of Directors in accordance with the applicable laws.

Following the Company's establishment of the Audit Committee, the duties that are previously exercised by supervisors in accordance with the Securities and Exchange Act, the Company Act, other laws and regulations, and the Articles of Incorporation, except for the power and authority stipulated in Article 14-4, Paragraph 4 of the Securities and Exchange Act, shall henceforth be exercised by the Audit Committee. The resolutions of the Audit Committee shall require agreement from more than one half of all members. The convener of the Audit Committee shall represent the Committee externally.

Article 13-3: The Company may purchase liability insurance policies that cover the directors' term of service, and therefore insure itself against liabilities incurred by the directors over the course of service.

Article 13-4: The Company shall have three supervisors who shall be elected from among the shareholders with capacity at the shareholders meeting in accordance with the consolidated election method to serve a term of three years and may be eligible for re-election. The total proportion of shares held by all supervisors of the Company shall be determined in accordance with regulations of the competent authority responsible for securities.

When all supervisors leave their positions, the Board of Directors shall call, within thirty days, a extraordinary shareholders meeting to elect supervisors to fill the vacancies; each successor so elected shall hold office for the remaining term of their predecessors only.

In addition to executing their duties in accordance with laws, supervisors may attend the meetings of the Board of Directors to express their opinions. They are however not eligible to vote in the meetings.

Chapter 4 Directors and Supervisors

Article 14: The Board of Directors shall appoint one Chairman of the Board during a board meeting with more than two-thirds of Directors present, and with the approval of more than half of all attending Directors. The Chairman shall represent the Company externally.

A director may present a written proxy statement to entrust another director as proxy to attend the board meeting and exercise voting rights on his/her behalf with regard to all matters put forward in the meeting. However, the proxy may only represent one director.

Article 15: The board meeting shall be convened at least once every quarter. The first meeting of the Board of Directors for each term shall be convened in accordance with Article 203 of the Company Act. The Board of Directors meeting shall be convened by the Chairman. Other meetings shall be convened and chaired by the Chairman.

Notices for the Company's Board of Directors meetings shall be distributed to the Directors and Supervisors at least seven days before the meeting. The date, location, and agenda of the meeting shall be clearly stated in the notice. However, a Board of Directors meeting may be called at any time in the event of an emergency without requiring notices described above. The notice in the preceding paragraph shall be provided in print or in electronic format.

Directors' attendance via video conference shall be considered as attendance in person.

The Chairman shall chair the Board of Directors meeting. In addition, the Chairman retains the right to represent the Company in signing documents in accordance with resolutions passed in the Board of Directors meeting. The Chairman shall represent the Board of Directors to take actions for furthering the Company's goals during the recess of the Board in accordance with the Board's resolutions.

Where the Chairman is absent, the Vice Chairman or other Directors shall act on his/her behalf in accordance with Article 208 of the Company Act. If the Chairman is unable to perform the duties, the Chairman may appoint one of the directors to act on his/her behalf. If no one is appointed, the remaining Directors will appoint one among them to perform the Chairman's duties.

The Company's operating guidelines and other important items shall be determined by the Board of Directors. The Directors shall exercise their powers in accordance with resolutions adopted by the Board of Directors or the shareholders meeting.

In addition to executing their duties in accordance with laws, supervisors may attend the meetings of the Board of Directors to express their opinions. They are however not eligible to vote in the meetings.

Article 16: The Board of Directors shall be authorized to determine the remuneration for the Chairman, Directors and Supervisors in accordance with their contribution to the Company and the industry's prevailing rates regardless of profits or losses.

Chapter 5 Managers

Article 17: The Company may have a General Manager and several Vice General Managers. Their appointment, dismissal and remuneration shall comply with Article 29 of the Company Act.

The General Manager shall be in charge of the Company's business operations. The General Manager's scope of duties shall exclude duties of the Board of Directors and the Chairman that are specified in the Company Act, Securities and Exchange Act, related regulations, and the "Authorization of Approval Table of the Board of Directors and Management" established by the Company; all other powers may be exercised by the General Manager.

Chapter 6 Accounting

Article 18: At the end of each fiscal year, the Company's Board of Directors shall compile the following reports and submit them to the Supervisors for review at least 30 days before the annual general shareholders meeting: (1) Business Report (2) Financial Statements (3) Proposals on distribution of earnings or make-up of deficits, etc. The documents shall be submitted to the general shareholders meeting for ratification.

Article 19: (Deleted).

Article 20: If the Company has generated profits for the current year, it shall allocate at least 3% of profits as employee bonus. The Board of Directors shall decide to distribute the bonus as shares or cash, which can also be distributed to employees of affiliated companies that meet certain criteria; if the Company sustains profit for the current year, the Board of Directors shall decide to set aside no more than 3% of profit as director and supervisor remuneration. Employee bonus and director remuneration proposals shall be presented to the shareholders meeting.

However when the Company still has accumulated loss, a certain amount of the earnings shall be retained for making up the loss and the remainder may be set aside as employee compensation and remuneration to Directors and Supervisors according to the percentage specified in the preceding paragraph.

Article 20-1: In the event of surplus earnings after closing of annual accounts, due taxes shall be paid in accordance with the law, and losses incurred in previous years shall be compensated. Upon completion of the preceding actions, 10% of the remainder surplus shall be allocated as legal reserve. However, in the event that the accumulated legal reserve is equivalent to or exceeds the Company's total paid-in capital, such allocation may be exempted. The remainder may be set aside or reversed as special surplus reserve in accordance with laws and regulations. If there is remainder surplus, the Board of Directors shall draft a surplus distribution proposal regarding the remainder of the surplus as well as accumulated undistributed surplus for approval at the shareholders' meeting, at which the allocation of shareholders' dividends shall be

decided.

The Company has adopted a balanced dividend policy to protect shareholder interest and the goal of sustainable development. The optimal dividend policy shall be consistent with current and future development plans while accounting for the investment environment, capital needs, domestic and international competition, the interest of shareholders, as well as the capital budgets for the following year. The Board of Directors shall formulate a distribution plan for approval in the shareholders meeting before implementation.

Dividends for shareholders may be distributed in cash or shares. The cash portion shall not be lower than 30% of total dividends.

Article 20-2: The Company may make reinvestments in Taiwan or abroad following resolution in a Board of Directors meeting. When the Company becomes the shareholder of limited liability in other companies, its total amount of investment in such companies shall not be subject to Article 13 of the Company Act which stipulates that the total amount of investment may not exceed 40% of the amount of its own paid-in capital.

Chapter 7 Supplementary Provisions

Article 21: Any matters that are not addressed in the Articles of Incorporation shall be governed by the Company Act and the relevant regulations.

Article 22: The Articles of Incorporation were formalized on December 2, 1976.

The 1st amendment was on October 12, 1978. The 2nd amendment was on December 11, 1978. The 3rd amendment was on January 8, 1979. The 4th amendment was on November 16, 1981. The 5th amendment was on April 28, 1985. The 6th amendment was on June 19, 1987. The 7th amendment was on September 5, 1988. The 8th amendment was on April 24, 1989. The 9th amendment was on June 15, 1990. The 10th amendment was on November 15, 1990. The 11th amendment was on April 27, 1991. The 12th amendment was on December 3, 1991. The 13th amendment was on July 4, 1992. The 14th amendment was on December 19, 1992. The 15th amendment was on May 26, 1994. The 16th amendment was on April 22, 1995. The 17th amendment was on April 20, 1996. The 18th amendment was on September 9, 1996. The 19th amendment was on June 13, 1997. The 20th amendment was on April 11, 1998. The 21st amendment was on April 14, 2000. The 22nd amendment was on April 9, 2001. The 23rd amendment was on May 21, 2002. The 24th amendment was on May 15, 2003. The 25th amendment was on May 17, 2005. The 26th amendment was on June 15, 2006. The 27th amendment was on June 13, 2007. The 28th amendment was on June 13, 2008. The 29th amendment was on June 10, 2009. The 30th amendment was on June 25, 2010. The 31st amendment was on June 15, 2016.

[Appendix 3]

Status of Holdings of Directors

- (1). Total issued shares of the Company as of April 21, 2018: 309,807,603 common shares.
- (2). According to Article 26 of the Securities Exchange Act, all directors shall retain no less than 12,392,304 shares in total.
- (3). As of the ex-dividend date (April 21, 2018) shares retained by directors are as follows:

April 21, 2018

| Title | Name | Shares currently held | |
|-----------------------|--|-----------------------|--------------------|
| | | Number of shares | Shareholding ratio |
| Director | Han De Investment Co., Ltd. Chairman : Alexander M.T.Su | 17,050,276 | 5.50% |
| Director | Trickle Co., Ltd.: Chairman : Trickle T.C.Chang | 14,662,469 | 4.73% |
| Director | Ming-shan Tseng | 1,812,999 | 0.59% |
| Director | Fisher C.H.Yu | 186,242 | 0.06% |
| Director | Johnathon Y.J.Su | 7,704,930 | 2.49% |
| Director | Yung-Yu Chiu | 10,193 | 0.00% |
| Independent Directors | Winston Won | - | - |
| Independent Directors | Po-Yung Chu | - | - |
| Independent Directors | Paul T.Y.Huang | - | - |

Note 1 : As of the ex-dividend date, a total of 41,427,109 shares were retained by all Directors, which meets the requirement of 12,392,304 shares as specified under Article 26 of the Securities and Exchange Act.

Note 2 : The Company has established an Audit Committee.