Stock Code: 2031
The information in the Annual Report can be found at the following webpage
(Website: http://mops.twse.com.tw)

HSIN KUANG STEEL CO., LTD

2017

Annual Report

Date of Publication: April 30, 2018

1. Date of establishment
   January 1, 1967

2. Addresses of headquarters and factories:
   Headquarters: 25F, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City ☏:(02)2978-8888
   Guanyin Plant: No. 120, Gongye 8th Road, Guanyin District, Taoyuan City ☏:(03)483-8895
   Changbin Plant: No. 1, East 9th Road, Changhua Coastal Industrial Park, Xianxi Township, Changhua County ☏:(04)758-3113
   Kaohsiung First Plant: No. 25, Bengong West Road, Benzhou Industrial Park, Gangshan District, Kaohsiung City ☏:(07)623-2325
   Kaohsiung Second Plant: No. 50, Bengong West Road, Benzhou Industrial Park, Gangshan District, Kaohsiung City ☏:(07)623-2325

3. Stock Transfer Handling Agency
   Name: President Securities Corp. Department of Stock Affairs
   Address: B1, No. 8, Dongxing Road, Taipei City
   Website:http://www.pscnet.com.tw
   Telephone:(02)2746-3797

4. Name of the CPA Certifying the Financial Statements in the Most Recent Year
   Name of CPA firm: Deloitte & Touche
   Certifying CPA: CPAs Chao-Ling Chen and Chiang-Pao Liu
   Address of CPA firm: 12F, No. 156, Section 3, Minsheng East Road, Taipei City
   Website: http://www.deloitte.com.tw
   Address and telephone number of CPA firm:(02)2545-9988

5. Name of exchange house where overseas eligible securities are traded and method of inquiry on mentioned securities: N/A

6. Spokesperson
   Name: Chao-Lang Hsu
   Title: Vice General Manager of Administration Department
   Telephone: (02) 2978-8888 ext. 236
   Email:xuzhal@hksteel.com.tw

7. Acting Spokesperson:
   Name: Teng-Kui Kao
   Title: Assistant Vice General Manager of 1st Operations Department, ext. 202
   Telephone:(02)2978-8888

8. Company Website: http://www.hkssteel.com.tw

9. Investor relations processing unit E-mail: IRP_mail@hkssteel.com.tw

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

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I. Letter to Shareholders

Dear Shareholders,

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 at the end of the current 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 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.

Chairman of the Board Ming-Te Su

II. Company Overview

A. Company Profile

(A) Date of Establishment: January 1, 1967

(B) Company History

Since Mr. Ming-Te Su was elected Chairman in 1985, Hsin Kuang Steel conducted vigorous reforms and established professional management based on ideals of practicality, services, innovation, and sharing. These ideals allowed the Company to grow, prosper, and transform into a steel manufacturing firm listed on the TWSE and received recognition and praise from all sectors. The Chairman's important achievements include:

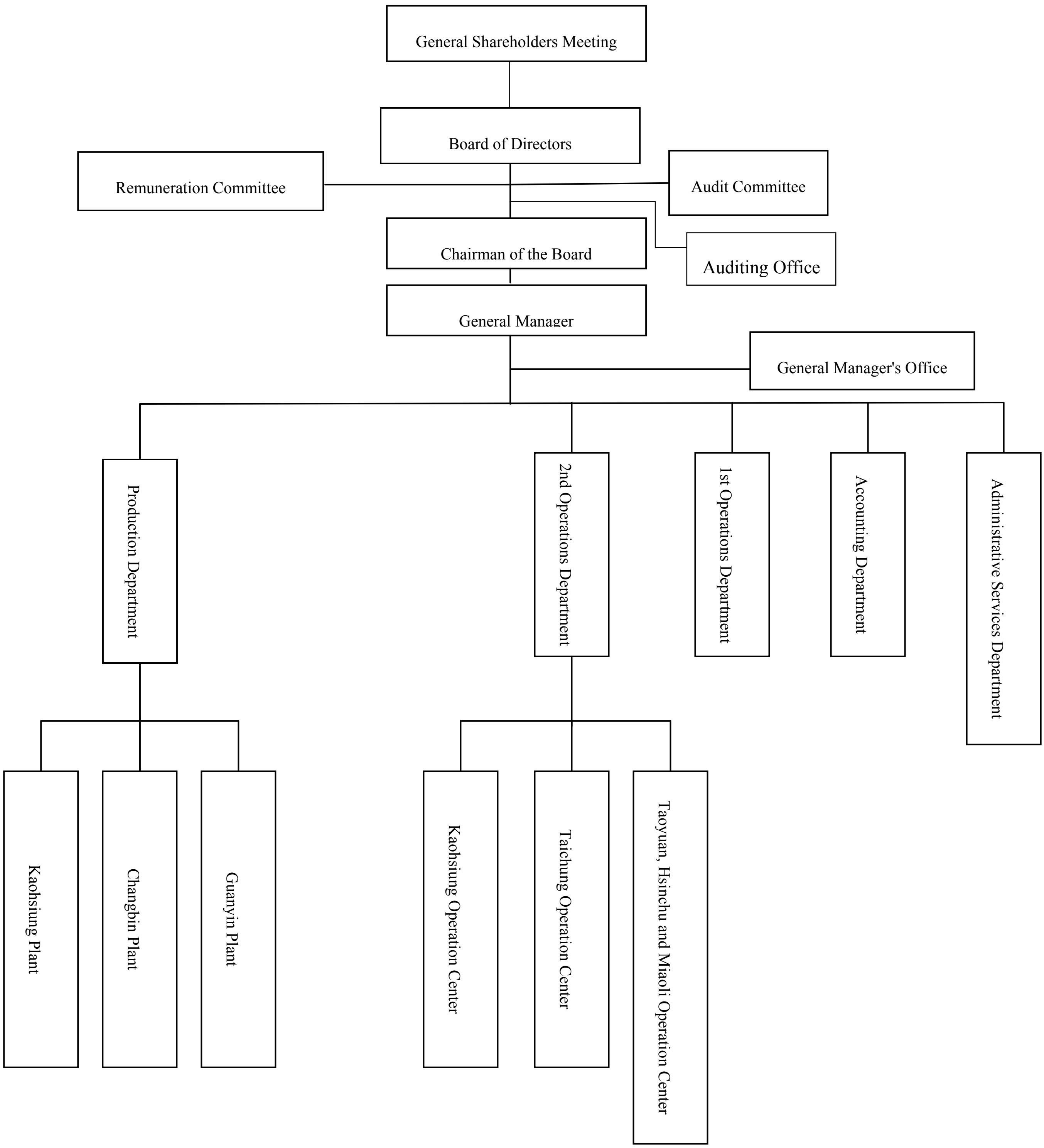
1. In April 1991, Hsin Kuang Steel was registered by the Industrial Development Bureau, Ministry of Economic Affairs as a central plant in the Hsin Kuang Steel central-satellite system.
2. In November 1992, the Company was awarded the Golden Merchants Award by the Ministry of Economic Affairs. The Chairman Mr. Ming-Te Su was summoned by President Mr. Teng-Hui Lee for praise and encouragement.
3. In May 1994, the Chairman Mr. Ming-Te Su was elected Supervisor of Taiwan Steel & Iron Industries Association.
4. In August 1994, the Company was approved for public listing by the Securities and Futures Administration Committee, Ministry of Finance.
5. In September 1994, the Company was awarded the third-term National Award of Outstanding SMEs. The Chairman Mr. Ming-Te Su was summoned by President Mr. Teng-Hui Lee for praise and encouragement.
6. In August 1995, the Chairman Mr. Ming-Te Su was elected Chairman of the National Association of Hardware of R.O.C.
7. In September 1995, the Company completed the digitalization of internal corporate procedures.
8. In December 1995, the Chairman Mr. Ming-Te Su was elected the 18th-term Model of Entrepreneurs.
9. In December 1996, the Company was approved for listing on the Taipei Exchange by the Securities and Futures Administration Committee, Ministry of Finance and the Taipei Exchange.
10. In April 1997, the Company's stocks were traded on the Taipei Exchange.
11. In July 1998, the Company's Guanyin Plant and Xinwu Plant received ISO-9002 certification at the same time.
12. In August 1998, the Chairman Mr. Ming-Te Su was elected the 1st-term Model Achievement Award.

13. In August 2000, the Company was approved for listing on the Taiwan Stock Exchange by the Securities and Futures Administration Committee, Ministry of Finance and the Taiwan Stock Exchange. The Company's stocks are listed on the Taiwan Stock Exchange in September of the same year.
14. In February 2001, the Company's Guanyin Plant established the "Stainless Steel Cutting Center".
15. In September 2001, the Company's Guanyin Plant, Xinwu Plant, and Changbin Plant received ISO-9001:2000 certification at the same time.
16. In September 2003, the Company's Kaohsiung Plant established the "Southern Steel Product Logistics Center".
17. In September 2004, the Company's Kaohsiung Plant established the "Steel Structure Components Production Center" and the "Special Steel Cutting Center".
18. In September 2008, the Company's Guanyin Plant established the "Galvanized Steel Cutting Center".
19. In November 2009, the Company invested and established the "Hsin Kuang Alga Engineering Co., Ltd." to achieve vertical integration in product supply.
20. The Company's subsidiary Hsin Kuang Alga Engineering Co., Ltd. collaborated with ALGA s.p.a. on earthquake protection technologies for bridges; and established the "Taiwan Tech Structural Mechanics Laboratory" in an academic-industrial collaboration with National Taiwan University of Science and Technology.
21. In May 2010, the "Galvanized Steel Cutting Center" at the Company's Guanyin Plant began operations.
22. In July 2010, the Company's Guanyin Plant, Xinwu Plant, Changbin Plant, and Kaohsiung Plant received ISO-9001:2008 certification at the same time.
23. In October 2010, the Company established the "Stainless Steel Polishing and Cutting Center".
24. In January 2011, the Company established the "Patterned Worker's Board (road coverage construction and bridge construction platform) Polishing and Cutting Center".
25. In 2016, the construction of the "Steel Product Warehouse and Logistics Center" began at the Company's Guanyin Plant. The center was completed and inaugurated in 2017.

III. Corporate Governance Report

A. Organization

(A).Organization Structure



(B).Organization Structure and Businesses of Main Departments

Unit	Main Duties
Operations Department	1.Market development and sales for steel plates. 2.Market development and sales for special steel plates. 3.Market development and sales for steel sections. 4.Market development and sales for steel coils. 5.Market development and sales for stainless steel products. 6.Market development and sales for steel structure components. 7.Market development and sales for patterned worker's board (road coverage construction and bridge construction platform). 8.Market development and sales for export trades. 9.Source development and procurement of domestic and foreign raw materials. 10.Customer returns, complaints, and other services. 11.Payment collection and processing accounts receivable. 12.Customer credit management. 13.Other related sales and procurement operations.
Production Department	1.Storage, management, cutting, processing, and shipping of steel plates. 2.Storage, management, cutting, processing, and shipping of steel coils (including galvanized steel coils) and special steel plates. 3.Storage, management, cutting, processing, and shipping of stainless steel products. 4.Storage, management, cutting, processing, and shipping of round steel bars. 5.Storage, management, cutting, processing, and shipping of steel sections. 6.Storage, management, cutting, processing, and shipping of steel structure components. 7.Storage, management, cutting, processing, and shipping of patterned worker's board (road coverage construction and bridge construction platform). 8.Transportation management and vehicle dispatch. 9.Production cost information collection and control. 10.Inventory. 11.Industrial safety and health. 12.Equipment maintenance and repairs. 13.Coordination between production and sales. 14.Other related production operations.

Unit	Main Duties
Administrative Services Department	1.Human resources, recruitment, appointment, promotion, attendance, assessment, salary, education and training, welfare, retirement, departure and other operations. 2.Document management and general affairs. 3.Procurement, management, inventory, insurance, and other operations for fixed assets. 4.Any other tasks assigned by superior officers.
Accounting Department	1.Cash disbursement management and storage of securities. 2.Fundraising, financial operations, financing management, and other operations. 3.Review, number, filing, and storage of various accounting vouchers. 4.Processing accounts, formulation of financial statements and reports, and other operations. 5.Processing and compiling cost accounting affairs. 6.Taxation payment, report of deductibles, registration, and other operations. 7.Dividend distribution, shareholder services, and other operations. 8.Development and design of electronic network systems. 9.Provide shareholder information and legal declarations, announce the shareholding status of Directors and Supervisors, and other operations. 10.Any other tasks assigned by superior officers.
General Manager's Office	1.Mid to long-term business development plans. 2.Annual Business Plan adjustment and compilation. 3.Corporate business environment analysis and strategy formulation. 4.Formulation of overall operation targets. 5.Related affairs for advancing the management of objectives. 6.Maintain records and keep track of production and sales coordination meetings, personnel evaluation meetings, management meetings, management of objectives, and items assigned by the General Manager. 7.Instruct executive management and strategic committee members. 8.Other project research and assigned tasks.
Audit Office	1.Audit items in accordance with the Company's established policies and instructions. 2.Audit items in various income and cost control operations. 3.Formulate and execute a written audit system. 4.Other related auditing operations.

B. Directors, Supervisors, General Manager, Vice Presidents, Assistant Vice Presidents, and Managers of Various Departments and Branch Offices

(A). Directors and Supervisors

1.Directors and Supervisors

April 30, 2018

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date First Elected (Note 2)	Elected Date	Term	Shares Held When Elected		Shares Currently Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences	Positions Currently Held in Other Companies (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship		
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship
Director	Republic of China	Representative of Han De Investment Co., Ltd.: Alexander M.T.Su	—	2008.6.13	2017.6.15	3 years	16,850,276	5.50%	17,050,276	5.50%	17,716,487	5.72%	—	—	Executive Management Course, Center for Public and Business Administration Education, Chengchi University Chairman and General Manager of Hsin Kuang Steel Co., Ltd.	Chairman of: Hsin Yuan Investment Co., Ltd. Hsin Ho Fa Metal Co., Ltd. Hsin Kuang Alga Engineering Co., Ltd. B.V.I. Sinpao Investment Co., Ltd. Han De Investment Co., Ltd. Hui Jung Investment Co., Ltd. Hsin Ching International Co., Ltd. Taipei County Private Hui Jung Welfare and Charity Foundation Director of: Cheng Yu Investment Co., Ltd. Hsin Wei Optoelectronics Co., Ltd. Century Iron and Steel Industrial Co., Ltd. Mason Metal Industry Co., Ltd. Hsin Kuang Steel Tian-Cheng Charity Foundation Century International Construction Ltd. Myanmar Century Steel Structure Ltd. Supervisor of: Ching Shun Hardware Co., Ltd.	Director	Johnathon Y.J.Su	Father-son
Director	Republic of China	Representative of Trickle Co., Ltd.: Trickle T.C.Chang	—	1985.4.28	2017.6.15	3 years	14,662,469	4.73%	14,662,469	4.79%	5,228,283	1.69%	—	—	Primary Agricultural School (predecessor of Mu Zha Junior High School) Chairman of	Chairman of: Shin Fa Steel Mfg. Co., Ltd. Shin Shin Fa Investment Co., Ltd. Hsin Kuang Steel Tian-Cheng Charity	No	No	No

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date First Elected (Note 2)	Elected Date	Term	Shares Held When Elected		Shares Currently Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences	Positions Currently Held in Other Companies (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship		
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship
															Trickle Co., Ltd.	Foundation Director of: Taiwan Chinsan Electronics Industrial Co., Ltd. Taiwan Steel Tower Co., Ltd. An Gang Metal Co., Ltd. Taipei City Li Lien-Lai Charity Foundation Taipei City An Ho Social Welfare and Charity Foundation Supervisor of: Hsin Yuan Investment Co., Ltd. Does not hold positions in the Company			
Director	Republic of China	Ming-shan,Jheng	Male	1990.7.8	2017.6.15	3 years	1,812,999	0.59%	1,812,999	0.59%	1,959	—	—	—	Junior high school Director and Vice President of Operations of Hsin Kuang Steel Co., Ltd.	Chairman of: Fu Tao Construction Co., Ltd. Director of: Han De Investment Co., Ltd. Hsin Ching International Co., Ltd. Taipei County Private Hui Jung Welfare and Charity Foundation Envirolink Corporation Director of Yun-Shen Energies Recycling Tech. Co., Ltd.	No	No	No
Director	Republic of China	Fisher C.H.Yu	Male	1999.4.8	2017.6.15	3 years	186,242	0.06%	186,242	0.06%	—	—	—	—	Bachelor's degree Director and Vice President of Operations of Hsin Kuang Steel Co., Ltd.	Director of Hui Jung Investment Co., Ltd. Director of Hsin Ho Fa Metal Co., Ltd.	No	No	No
Director	Republic of China	Johnathon Y.J.Su	Male	2017.6.15	2017.6.15	3 years	7,704,930	2.52%	7,704,930	2.49%	—	—	—	—	Master, Birbeck, University of London (Birbeck, University of London)	Chairman of Cheng Yu Investment Co., Ltd. Director of Han De Investment Co., Ltd. Director of Hui Jung Investment Co., Ltd. Director of Mason Metal Industry Co., Ltd. Director of Taipei County Private Hui Jung Welfare and Charity Foundation	Chairman/General manager	Alexander M.T.Su	Father-son

Title (Note 1)	Nationality or Place of Registration	Name	Gender	Date First Elected (Note 2)	Elected Date	Term	Shares Held When Elected		Shares Currently Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences	Positions Currently Held in Other Companies (Note 3)	Any Executive Officer, Director or Supervisor Who is a Spouse or Relative within the Second Degree of Kinship		
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship
Director	Republic of China	Shih-Yang,Chen	Male	2017.6.15	2017.6.15	3 years	10,193	0.00%	10,193	0.00%	–	–	–	–	Graduated from Dept. of Accounting, Soochow University CPA, Chung Sun Certified Public Accountants Taipei Office Director of Taiwan CPA Association	Director of: Optivision Technology Incorporated Smartax Consulting Inc. Supervisor of: Pai Lung Machinery Mill Co., Ltd. Taiwan Chinsan Electronics Industrial Co., Ltd.	No	No	No
Independent Director	Republic of China	Winston Won	Male	2017.6.15	2017.6.15	3 years	–	–	–	–	–	–	–	–	EMBA, College of Management, National Taiwan University CPA and Director at Deloitte	Chair of Remuneration Committee, Hsin Kuang Steel Co., Ltd. Chairman of Ofuna Technology Co., Ltd.	No	No	No
Independent Director	Republic of China	Po-Young, Chu	Male	2017.6.15	2017.6.15	3 years	–	–	–	–	–	–	–	–	Ph.D. in Business Administration, Purdue University Dean of Aspire Academy President, Chung-Hua Institution for Economic Research	Professor, Department of Management Science, National Chiao Tung University Independent Director of Taigen Biopharmaceuticals Holdings Limited	No	No	No
Independent Director	Republic of China	Paul T.Y.Huang	Male	2017.6.15	2017.6.15	3 years	–	–	–	–	–	–	–	–	BA in Business Administration, National Chengchi University Assistant Vice President of Commercial Division, China Steel Corporation	Director, Taiwan Steel & Iron Industries Association	No	No	No

Note 1.The names and representatives of corporate shareholders shall be listed separately (those who represent corporate shareholders should indicate corporate names) and fill in the following Table 1.
Note 2.Fill in the time when the individual first served as the Company's Director or Supervisor. Any interruptions should be indicated.
Note 3.Experience related to the current position. If the individual had served in the certifying CPA firm or an affiliated enterprise in the aforementioned period, the position and job functions shall be described.

2. Major Shareholders of Corporate Shareholders

(1).Major Shareholders of Corporate Shareholders

April 30, 2018

Name of Corporate Shareholder (Note 1)	Major Shareholders of Corporate Shareholders (Note 2)
Han De Investment Co., Ltd.	Alexander M.T.Su holds 25% Johnathon Y.J.Su holds 74%
Trickle Co., Ltd.	Trickle T.C.Chang holds 61.16% Ya-Chi Wei holds 20.35% Tai-Tou Chang holds 11.49%

Note 1.Those who represent corporate shareholders shall include the name of the corporate shareholder and the names of shareholders of the corporation with over 10% of the shares or the top ten shareholders with the most shares.

Note 2.Fill in the names of main shareholders of the corporate shareholder (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio. If the major shareholders are corporate shareholders, fill in Table 2 below.

(2).Corporate shareholders' principal shareholders who are representatives of the corporate shareholders

April 30, 2018

Name of Corporate Shareholder (Note 1)	Major Shareholders of Corporate Shareholders (Note 2)

Note 1.If the major shareholders in the preceding Table 1 are corporate shareholders, the name of the corporate shareholder shall be disclosed.

Note 2.Fill in the names of main shareholders of the juristic person (the top ten shareholders in terms of shareholding ratio) and their shareholding ratio.

3. Director Information

Qualifications / Name (Note 1)	Having More Than 5 Years Work Experience and Professional Qualifications Listed Below			Meets the Independence Criteria (Note 2)										Number of Positions as an Independent Director in Other Public Companies
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Alexander M.T.Su			✓						✓	✓		✓	✓	-
Trickle T.C.Chang			✓	✓	✓		✓		✓	✓	✓	✓		-
Ming-shan,Jheng			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Fisher C.H.Yu			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Johnathon Y.J.Su			✓					✓	✓	✓		✓	✓	-
Shih-Yang,Chen		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Winston Won		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Po-Young, Chu	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Paul T.Y.Huang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note 1.Please add more rows to accommodate additional entries.

Note 2.Please "✓" the box under each criteria number if the director meets the criteria two years prior to resuming the position or during the term of service.

(1).Not employed by the Company or any of its affiliated companies.

(2).Not a director or supervisor of any affiliated company (except for independent director of the parent company or subsidiary in which the Company holds more than 50% direct or indirect voting interest).

(3).Not a natural person shareholder who holds more than one (1) percent of total shares issued by the Company or is ranked top 10 in terms of number of shares held, including shares held in the name of the person's spouse and minors, or in the name of others.

(4).Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship in the three preceding criteria.

(5).Not a director, supervisor, or employee of a juristic person shareholder that directly holds more than five (5) percent of the total number of shares issued by the Company or is one of the top 5 shareholders in terms of number of shares held.

(6).Not a director (member of the governing board), supervisor (member of the supervising board), managerial officer or shareholder who holds more than five (5) percent of the number of shares of companies or institutions that have financial or business dealings with the Company.

(7).Neither a professional nor an owner, partner, director (member of the governing board) and supervisor (member of the supervising board) or managerial officer of a sole proprietorship, partnership, company, or institution who provides commercial, legal, financial, accounting, or consultation services to the Company or to any of its affiliated companies, or spouse thereof. However, this excludes members of the Remuneration Committee who have been appointed to exercise duties in accordance with Article 7 of Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.

(8).Not a spouse or relative of second degree or closer to any other directors.

(9).Not having any of the situations set forth in Article 30 of the Company Act of the R.O.C.

(10).Not elected as a government or corporate representative, as described in Article 27 of The Company Act.

(B). Information of General Manager, Vice Presidents, Assistant Vice Presidents, and Managers of Various Departments and Branch Offices

April 30, 2018

Title (Note 1)	Nationality	Name	Gender	Date of Appointment	Shares Currently Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 2)	Positions Currently Held in Other Companies	Other Manager Who is the Spouse or a Relative within Second Degree of Kinship			The Condition of Managers Obtaining Stock Options
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
General Manager	Republic of China	Alexander M.T.Su	Male	1985	16,600,719	5.36%	1,115,768	0.36%	–	–	Executive Management Course, Center for Public and Business Administration Education, Chengchi University Chairman and General Manager of Hsin Kuang Steel Co., Ltd. Chairman of the National Association of Hardware of R.O.C. Executive Director of Taiwan Steel & Iron Industries Association	Chairman of: ─Hsin Kuang Steel Co., Ltd. ─Hsin Yuan Investment Co., Ltd. ─Hsin Ho Fa Metal Co., Ltd. ─Hsin Kuang Alga Engineering Co., Ltd. ─B.V.I. Sinpao Investment Co., Ltd. ─Han De Investment Co., Ltd. ─Hui Jung Investment Co., Ltd. ─Hsin Ching International Co., Ltd. ─Taipei County Private Hui Jung Welfare and Charity Foundation Director of: ─Hsin Wei Optoelectronics Co., Ltd. ─Century Iron and Steel Industrial Co., Ltd. ─Cheng Yu Investment Co., Ltd. ─Mason Metal Industry Co., Ltd. ─Hsin Kuang Steel Tian-Cheng Charity Foundation ─Century International Construction Ltd. ─Myanmar Century Steel Structure Ltd. Supervisor of: ─Ching Shun Hardware Co., Ltd.	No	No	No	No
Chief Executive Officer of the Executive Management and Strategy Committee	Republic of China	Johnathon Y.J.Su	Male	2016	7,704,930	2.49%	–	–	–	–	Master's degree	Chairman of Cheng Yu Investment Co., Ltd. Director of Han De Investment Co., Ltd. Director of Hui Jung Investment Co., Ltd. Director of Mason Metal Industry Co., Ltd. Director of Taipei County Private Hui Jung Welfare and Charity Foundation	General Manager	Alexander M.T.Su	Father-son	No
Vice President of Administration	Republic of China	Chao-Lang Hsu	Male	1995	902,660	0.29%	–	–	–	–	Bachelor's degree	Director of Hsin Yuan Investment Co., Ltd. Director of Hsin Ho Fa Metal Co., Ltd. Supervisor of Hsin Kuang Alga Engineering Co., Ltd.	No	No	No	No
Vice President of Operations	Republic of China	Ming-shan,Jheng	Male	2006	1,812,999	0.59%	1,959	–	–	–	Junior high school	Director of: ─Hsin Kuang Steel Co., Ltd. ─Han De Investment Co., Ltd. ─Hsin Ching International Co., Ltd. ─Taipei County Private Hui Jung Welfare and Charity Foundation ─Envirolink Corporation ─Yun-Shen Energies Recycling Tech. Co., Ltd.	No	No	No	No
Vice President of Special Steel Operations	Republic of China	Fisher C.H.Yu u	Male	2014	186,242	0.06%	–	–	–	–	Master's degree	Director of Hsin Kuang Steel Co., Ltd. Director of Hui Jung Investment Co., Ltd. Director of Hsin Ho Fa Metal Co., Ltd.	No	No	No	No
Vice President, 2nd Operations Department	Republic of China	Teng-Kui Kao	Male	2014	55,000	0.02%	–	–	–	–	Junior high school	Director of Hsin Kuang Alga Engineering Co., Ltd. Director of Hsin Ho Fa Metal Co., Ltd. Director of Taipei County Private Hui Jung Welfare and Charity Foundation	No	No	No	No
Vice President of Finance and Accounting	Republic of China	Jessica P.H. Liu	Female	2014	629,575	0.21%	–	–	–	–	Bachelor's degree	Director of Hsin Yuan Investment Co., Ltd. Director of Hsin Kuang Alga Engineering Co., Ltd. Director of Hsin Ching International Co., Ltd. Director of Taipei County Private Hui Jung Welfare and Charity Foundation Supervisor of Hsin Wei Optoelectronics Co., Ltd. Supervisor of Mason Metal Industry Co., Ltd. Supervisor of Envirolink Corporation	No	No	No	No

Title (Note 1)	Nationality	Name	Gender	Date of Appointment	Shares Currently Held		Shares Held by Spouse and Underage Children		Shares Held in the Name of Other Persons		Education and Work Experiences (Note 2)	Positions Currently Held in Other Companies	Other Manager Who is the Spouse or a Relative within Second Degree of Kinship			The Condition of Managers Obtaining Stock Options
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Assistant Vice President of Finance and Accounting	Republic of China	Lisa H.C. Chien	Female	2014	195,497	0.06%	–	–	–	–	Bachelor's degree	Director of Hsin Yuan Investment Co., Ltd. Supervisor of Hsin Ching International Co., Ltd.	No	No	No	No
Assistant Vice President of International Trade	Republic of China	Frank C.C. Huang	Male	2014	53,038	0.02%	–	–	–	–	Master's degree	No	No	No	No	No
Assistant Vice President of Taipei Office	Republic of China	Kuo-San Yang	Male	2014	45,000	0.01%	–	–	–	–	Bachelor's degree	No	No	No	No	No
Assistant Vice President of Taipei Office	Republic of China	Wen-Chieh Lo	Male	2017	1,365,972	0.44%	113	–	–	–	Senior high school	No	No	No	No	No
Guanyin Plant Director	Republic of China	Jih-Shun Yeh	Male	2010	47,282	0.02%	–	–	–	–	Junior high school	No	No	No	No	No
Changbin Plant Director	Republic of China	Ho-Shu Kao	Male	2000	240,000	0.08%	–	–	–	–	Senior high school	No	No	No	No	No
Kaohsiung plant manager	Republic of China	Chih-Cheng Kao	Male	2010	10,000	–	–	–	–	–	Senior high school	No	No	No	No	No

Note 1.This table should include Information of the General Manager, vice presidents, assistant vice presidents, and managers of various departments and branch offices as well as disclose information of those with equivalent positions of the General Manager, vice presidents, and assistant vice presidents regardless of job title.

Note 2.Experience related to the current position. If the individual had served in the certifying CPA firm or an affiliated enterprise in the aforementioned period, the position and job functions shall be described.

C. Remuneration paid to directors, supervisors, general manager and vice presidents in the past year

(A).Remuneration for Directors (including Independent Directors) in the Most Recent Year

December 31, 2017; Unit: NT$1,000; market value is in NT$ and number of shares is 1,000 shares

Title	Name	Remuneration of Directors								Ratio of Total Compensation (A+B+C+D) to Net Profit After Tax (%) (Note 11)		Remuneration Paid to Concurrent Employees										Ratio of Total (A), (B), (C), (D), (E), (F) and (G) to Net Profit After Tax (Note 11)		Remuneration Received from Investees Other than Subsidiaries (Note 12)
		Base Compensation (A) (Note 2)		Separation Pay and Pension (B)		Profit Sharing (C) (Note 3)		Business Expenses (D) (Note 4)				Salary, Bonus and Special Allowance (E) (Note 5)		Severance Pay and Pension (F)		Profit sharing & bonus (G) (Note 6)				Shares Acquired from Employee Stock Options (H) (Note 7)				
		The Company	All companies in the financial report (Note 8)	The Company	All companies in the financial report (Note 8)	The Company	All companies in the financial report (Note 8)	The Company	All companies in the financial report (Note 8)	The Company	All companies in the financial report (Note 8)	The Company	All companies in the financial report (Note 8)	The Company	All companies in the financial report (Note 8)	The Company		All companies in the financial report (Note 8)		The Company	All companies in the financial report (Note 8)	The Company	All companies in the financial report (Note 8)	
																Cash bonus	Stock bonus	Cash bonus	Stock bonus					
Chairman of the Board	Alexander M.T.Su																							No
Juristic Person Director	Han De Investment Co., Ltd.																							No
Juristic Person Director	Trickle Co., Ltd.																							No
	Trickle T.C.Chang																							No
Director	Ming-shan,Jheng																							No
Director	Fisher C.H.Yu																							No
Director	Johnathon Y.J.Su																							No
Director	Shih-Yang,Chen	600	600	-	-	35,969	38,824	600	680	37,169	40,104	7,991	7,991	0	-	4,675	-	5,945	-	-	-	49,835	54,040	
Independent Director	Winston Won																							No
Independent Director	Po-Young, Chu																							No
Independent Director	Paul T.Y.Huang																							No
Outgoing Director (Term expired on August 5, 2017)	Xiao-Ru Su																							No
Outgoing Director (Term expired on August 5, 2017)	Wan-Chin Tsai																							No
*Except as disclosed above, remuneration received by directors in the latest year for on-balance sheet services (e.g. acting as an non-employee consultant) rendered to the company: No																								

Note 1.Policies, standards, and packages for payment of remuneration for directors, procedures, and its linkage to business performance and future risk exposure: The remuneration for the Chairman and Directors of the Company shall be determined in accordance with the Articles of Incorporation. In addition, the Articles of Incorporation also specifies that the Company shall appropriate no more than 3% of profits as director remuneration. The payment of the remuneration for directors shall be processed in accordance with the Company's "Directors, Supervisors, and Managers Remuneration Policy".

Note 2.The total director remuneration paid by the Company and all companies in the financial report in 2016 was NT$25,876,175 which accounted for 3.45% of the after-tax profit of 2016.

Remuneration Range Table

Remuneration Range Paid to Directors of the Company	Name of Director			
	Total amount of the 4 preceding remunerations (A+B+C+D)		Total amount of the 7 preceding remunerations (A+B+C+D+E+F+G)	
	The Company (Note 9)	All companies in the financial report (Note 10) I	The Company (Note 9)	All companies in the financial report (Note 10) I
Less than NT$2,000,000	Alexander M.T.Su, Trickle T.C.Chang, Winston Won Po-Young, Chu, Paul T.Y.Huang, Shih-Yang,Chen Xiao-Ru Su, Wan-Chin Tsai	Trickle T.C.Chang, Winston Won Po-Young, Chu, Paul T.Y.Huang, Shih-Yang,Chen Xiao-Ru Su, Wan-Chin Tsai	Trickle T.C.Chang, Winston Won Po-Young, Chu, Paul T.Y.Huang Shih-Yang,Chen, Xiao-Ru Su, Wan-Chin Tsai	Trickle T.C.Chang, Winston Won Po-Young, Chu, Paul T.Y.Huang Shih-Yang,Chen, Xiao-Ru Su, Wan-Chin Tsai
From NT$2,000,000 to NT$5,000,000	Johnathon Y.J.Su	Alexander M.T.Su	Alexander M.T.Su, Johnathon Y.J.Su	Johnathon Y.J.Su
From NT$5,000,000 to NT$10,000,000	Trickle Co., Ltd., Ming-shan,Jheng, Fisher C.H.Yu	Trickle Co., Ltd., Ming-shan,Jheng, Fisher C.H.Yu	Trickle Co., Ltd., Fisher C.H.Yu	Alexander M.T.Su, Trickle Co., Ltd., Fisher C.H.Yu
From NT$10,000,000 to NT$15,000,000	Han De Investment Co., Ltd.	Han De Investment Co., Ltd.	Han De Investment Co., Ltd., Ming-shan,Jheng	Han De Investment Co., Ltd., Ming-shan,Jheng
From NT$15,000,000 to NT$30,000,000				
From NT$30,000,000 to NT$50,000,000				
From NT$50,000,000 to NT$100,000,000				
Greater than NT$100,000,000				
Total	13	13	13	13

Note 1.The names of the directors must separately list (for corporate shareholders, the names of corporate shareholders and representatives should be listed respectively) the various payment amounts using the summary disclosure method. The table and the following Table (3) shall be filled if a Director serves concurrently as General Manager or Vice President.

Note 2.Remuneration of the Director for the most recent year (include Director salary, additional duty payments, severance pay, various bonuses, or incentive payments).

Note 3.The amount is the proposed remuneration to directors approved by the Board of Directors for the most recent fiscal year.

Note 4.This is the business expense of directors in the past year (including transportation allowance, special allowance, stipends, dormitory, and car). If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is provided, please indicate the amount of compensation paid to the driver by the company, excluding remuneration, in a separate note.

Note 5. All pays to the director who is also employee of the Company (including the position of General Manager, Vice President, other managerial officer and staff), including salary, additional pay, pension, severance pay, bonuses, rewards, transportation allowance, special allowance, stipends, dormitory, and car. If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is provided, please indicate the amount of compensation paid to the driver by the company, excluding remuneration, in a separate note. Furthermore, any compensation recognized in the IFRS 2 - "Share-Based Payment" section, including issuance of employee stock options, new restricted employee shares and capital increase by stock subscription, shall be included in the calculation of remuneration.

Note 6. For directors concurrently serving as employees (including general manager, vice presidents, other managers and employees) who receive employee rewards (including shares and cash), the amount of employee rewards that have been approved by the Board of Directors and are distributed to them in the most recent fiscal year shall be disclosed. If the amount of rewards cannot be estimated, the amount of rewards in the current fiscal year shall be calculated based on the ratio of the amount of rewards distributed in the previous fiscal year, and this amount shall also be filled in Table 1-3.

Note 7. The total pay to the director from all companies in the consolidated statements (including the Company) shall be disclosed.

Note 8. The name of each director shall be disclosed in the range of remuneration corresponding to the amount of all the remuneration paid to the director by the company.

Note 9. The total amount of all the remuneration paid to each director of the company by all the companies (including the company) listed in its consolidated financial statements shall be disclosed. The name of each director shall be disclosed in the range of remuneration corresponding to the total amount mentioned in the preceding sentence.

Note 10. The net profit after tax refers to the net profit after tax in the most recent fiscal year; for companies that have adopted IFRSs, the net profit after tax refers to the net profit after tax in the parent company only or individual financial report in the most recent year.

Note 11. a. The amount of remuneration received from subsidiaries other than investment companies by the company's directors shall be stated clearly in this column.

b. If a director of the company receives remuneration from investment companies other than subsidiaries, the amount of remuneration received by the director from investment companies other than subsidiaries shall be combined into Column I of the table for ranges of remuneration, and this column shall be renamed as "All Investment Companies".

c. The remuneration means pay, compensation (including compensation of employees, directors and supervisors) and business expenses received by the director serving as a director, supervisor or manager of an investee of the Company other than subsidiaries.

*The remuneration disclosed in the table is different from income as defined in the Income Tax Act. This table is therefore provided for disclosure only and is not used for taxation purposes.

(B).Remuneration for Supervisors in the Most Recent Year

December 31, 2017; Unit: NT$1,000

Title	Name	Supervisor Remuneration						Ratio of Total Remuneration (A+B+C) to Net Profit After Tax (%) (Note 8)		Remuneration Received from Investees Other than Subsidiaries (Note 9)
		Base Compensation (A) (Note 2)		Remuneration for Distribution of Earnings (B) (Note 3)		Project Implementation Expenses (C) (Note 4)				
		The Company	All companies in the financial report (Note 5)	The Company	All companies in the financial report (Note 5)	The Company	All companies in the financial report (Note 5)	The Company	All companies in the financial report (Note 5)	
Supervisor (Term expired on August 5, 2017)	Wen-Lung Li	-	-	2,340	2,620	90	100	2,430	2,720	No
Supervisor (Term expired on August 5, 2017)	Yung-Yu Chiu									
Supervisor (Term expired on August 5, 2017)	Shih-Yang,Chen									

Remuneration Range Table

Remuneration Range for the Company's Supervisors	Names of Supervisor	
	Total amount of the 3 preceding remunerations (A+B+C)	
	The Company (Note 6)	All Companies in Consolidated Statements (Note 7) D
Less than NT$2,000,000	Wen-Lung Li, Shih-Yang,Chen, Yung-Yu Chiu	Wen-Lung Li, Shih-Yang,Chen, Yung-Yu Chiu
From NT$2,000,000 to NT$5,000,000		
From NT$5,000,000 to NT$10,000,000		
From NT$10,000,000 to NT$15,000,000		
From NT$15,000,000 to NT$30,000,000		
From NT$30,000,000 to NT$50,000,000		
From NT$50,000,000 to NT$100,000,000		
Greater than NT$100,000,000		
Total	3	3

Note 1.The names of Supervisors shall be listed separately (the names and representatives of corporate shareholders shall be listed separately) and the amounts paid shall be disclosed in a summary.

Note 2.Remuneration to supervisors in the past year (including salary, additional pay, severance pay, bonuses and rewards).

Note 3.The amount is the proposed remuneration to supervisors approved by the Board of Directors for the most recent fiscal year.

Note 4.This is the business expense of Supervisors in the past year (including transportation allowance, special allowance, stipends, dormitory, and car). If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is provided, please indicate the amount of compensation paid to the driver by the company, excluding remuneration, in a separate note.

Note 5.The total pay to the Supervisor from all companies in the consolidated statements (including the Company) shall be disclosed.

Note 6.The name of each supervisor shall be disclosed in the range of remuneration corresponding to the amount of all the remuneration paid to the supervisors by the company.

Note 7.The names of Supervisors paid by all companies in the consolidated statements (including the Company) shall be disclosed in their respective remuneration range.

Note 8.The net profit after tax refers to the net profit after tax in the most recent fiscal year; for companies that have adopted IFRSs, the net profit after tax refers to the net profit after tax in the parent company only or individual financial report in the most recent year.

Note 9.a. The amount of remuneration received from subsidiaries other than investment companies by the company's supervisors shall be stated clearly in this column.

b. If Supervisors of the Company received remuneration from investees other than subsidiaries of the Company, the remuneration received by Supervisors of the Company from investees other than subsidiaries of the Company shall be included in D column of the Remuneration Range Table and the name of the field shall be changed to "All Investment Companies".

c. The remuneration means pay, remuneration, employee bonus (including remuneration for employees, directors and supervisors) and business expense received by the supervisor serving as a director, supervisor or manager of an investee of the Company other than subsidiaries.

* The remuneration disclosed in the table is different from income as defined in the Income Tax Act. This table is therefore provided for disclosure only and is not used for taxation purposes.

(C).Remuneration to the General Manager and Vice Presidents in the Most Recent Year

December 31, 2017; Unit: NT$1,000; market value is in NT$ and number of shares is 1,000 shares

Title	Name	Salary (A) (Note 2)		Retirement pension (B)		Bonus and Special Allowance, etc. (C) (Note 3)		Profit Sharing-Employee Bonus (D) (Note 4)				Ratio of Total (A), (B), (C), and (D) to Net Profit After Tax (%) (Note 9)		Shares subscribable under employee stock options (Note 5)		Shares obtained through restricted stock award (Note 11)		Remuneration Received from Investees Other than Subsidiaries (Note 10)
		The Company	All Companies in the financial report (Note 6)	The Company	All Companies in the financial report (Note 6)	The Company	All Companies in the financial report (Note 6)	The Company		All Companies in the financial report (Note 6)		The Company	All Companies in the financial report (Note 6)	The Company	All Companies in the financial report (Note 6)	The Company	All Companies in the financial report (Note 6)	
								Cash bonus	Stock bonus	Cash bonus	Stock bonus							
General Manager	Alexander M.T.Su	9,844	9,854	-	-	-	-	5,969	-	8,539	-	1.48%	1.73%	-	-	-	-	-
Vice President	Chao-Lang Hsu																	
Vice President	Ming-shan,Jheng																	
Vice President	Jessica P.H. Liu																	
Vice President	Fisher C.H.Yu																	

Note 1.Policies, standards, and packages for payment of remuneration for managers, procedures, and its linkage to business performance and future risk exposure: The remuneration paid to the Company's General Manager and Vice Presidents shall be proposed by the Chairman based on their roles, contribution, the Company's performance in the current year, and consideration for the Company's future risks. The proposal shall be submitted to the Remuneration Committee for review and delivered to the Board of Directors for approval. The remuneration paid to other managers shall be proposed by the General Manager and the proposal shall be submitted to the Remuneration Committee for review and delivered to the Board of Directors for approval.

Range of Remuneration Paid to General Managers and Vice Presidents	Names of General Manager or Vice President	
	The Company (Note 7)	All companies in consolidated statements (Note 8) E
Less than NT$2,000,000		
NT$2,000,000 (inclusive) to NT$5,000,000 (exclusive)	Alexander M.T.Su, Ming-shan,Jheng, Chao-Lang Hsu Fisher C.H.Yu, Jessica P.H. Liu	Ming-shan,Jheng, Chao-Lang Hsu, Fisher C.H.Yu, Jessica P.H. Liu
NT$5,000,000 (inclusive) to NT$10,000,000 (exclusive)		Alexander M.T.Su
NT$10,000,000 (inclusive) to NT$15,000,000 (exclusive)		
NT$15,000,000 (inclusive) to NT$30,000,000 (exclusive)		
NT$30,000,000 (inclusive) to NT$50,000,000 (exclusive)		
NT$50,000,000 (inclusive) to NT$100,000,000 (exclusive)		
Greater than NT$100,000,000		
Total	5	5

Note 1. The names of General Managers and Vice Presidents shall be listed separately and the amounts paid shall be disclosed in a summary. The table and the preceding Table (1-1) or (1-2) shall be filled if a Director serves concurrently as General Manager or Vice President.

Note 2. Salary, additional pay, and severance pay received by the General Manager or vice president in the past year.

Note 3. Bonus, reward, transportation allowance, special allowance, stipends, dormitory, car and other pays received by the General Manager or vice president in the past year. If housing, cars, other transportation vehicles, or exclusive personal expenditures are provided, the nature, cost, actual rent or fair value rent of the assets, fuel expenses, and other payments shall also be disclosed. If a driver is provided, please indicate the amount of compensation paid to the driver by the company, excluding remuneration, in a separate note. Furthermore, any compensation recognized in the IFRS 2 - "Share-Based Payment" section, including issuance of employee stock options, new restricted employee shares and capital increase by stock subscription, shall be included in the calculation of remuneration.

Note 4. Fill the amount of employee rewards (including shares and cash) that have been approved by the Board of Directors and are distributed to the general manager and vice president in the most recent fiscal year. If the amount of rewards cannot be estimated, the amount of rewards in the current fiscal year shall be calculated based on the ratio of the amount of rewards distributed in the previous fiscal year, and this amount shall also be filled in Table 1-3. The net profit after tax refers to the net profit after tax in the most recent fiscal year; for companies that have adopted IFRSs, the net profit after tax refers to the net profit after tax in the parent company only or individual financial report in the most recent year.

Note 5. The total pay to the General Manager or vice president from all companies in the consolidated statements (including the Company) shall be disclosed.

Note 6. The names and remuneration of General Managers and Vice Presidents paid by the Company shall be disclosed in their respective remuneration range.

Note 7.The names of General Managers and Vice Presidents paid by all companies in the consolidated statements (including the Company) shall be disclosed in their respective remuneration range.

Note 8.The net profit after tax refers to the net profit after tax in the most recent fiscal year; for companies that have adopted IFRSs, the net profit after tax refers to the net profit after tax in the parent company only or individual financial report in the most recent year.

Note 9. a. This field shows the amount of remuneration the General Manager or Vice President of the Company receives from investees other than subsidiaries of the Company.

b. If a General Manager or Vice President of the Company received remuneration from investees other than subsidiaries of the Company, the remuneration received by the General Manager or Vice President of the Company from investees other than subsidiaries of the Company shall be included in E column of the Remuneration Range Table and the name of the field shall be changed to "All Investment Companies".

c. Remuneration refers to the compensation, rewards (including rewards distributed to employees, directors and supervisors) and remuneration related to business expenses that are received by the company's general manager and vice presidents who serve as directors, supervisors or professional managers at subsidiaries other than investment companies.

* The remuneration disclosed in the table is different from income as defined in the Income Tax Act. This table is therefore provided for disclosure only and is not used for taxation purposes.

(D).Names of managers who received employee bonus and the details

December 31, 2017; Unit: NT$1,000; market value is in NT$ and number of shares is 1,000 shares

	Title (Note 1)	Name (Note 1)	Stock bonus	Cash bonus	Total	The total as a % of Net Profit After Tax (%)
Manager	General Manager	Alexander M.T.Su	-	8,539	8,539	0.80%
	Vice President of Administration	Chao-Lang Hsu				
	Vice President of Operations	Ming-shan,Jheng				
	Vice President of Special Steel Operations	Fisher C.H.Yu				
	Vice President of Finance and Accounting	Jessica P.H. Liu				
	Assistant Vice President of Finance and Accounting	Lisa H.C. Chien				

The amount is the employee bonus (including stock bonus and cash bonus) to the managers according to the most recent earnings distribution that has been approved by the Board of Directors but has not been submitted to the shareholders' meeting. If the proposed profit sharing and bonus cannot be estimated, the proposed distribution amount shall be calculated based on the actual amount distributed in the previous year. The value of stock bonus of a company listed whose stock is listed on the stock exchange or traded over the counter shall be calculated by the fair value in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers (the closing price of the company's stock on the balance sheet date); if the company's stocks is not listed on the stock exchange or traded over the counter, it shall be calculated by the net value of profits on the closing date of the fiscal year. The net profit after tax refers to the net profit after tax in the most recent fiscal year.

Note 1.Names and titles of individuals should be disclosed, but the disclosure can be shown in aggregate earnings distribution.

Note 2.Fill the amount of employee rewards (including shares and cash) that have been approved by the Board of Directors and are distributed to the managerial officers in the most recent fiscal year. If this amount of rewards cannot be estimated, the amount of rewards in the current fiscal year shall be calculated based on the ratio of the amount of rewards distributed in the previous fiscal year. The net profit after tax refers to the net profit after tax in the most recent fiscal year; for companies that have adopted IFRSs, the net profit after tax refers to the net profit after tax in the parent company only or individual financial report in the most recent year.

Note 3.The applicability of managers shall be in accordance with the Financial Supervisory Commission's Tai-Cai-Zheng-3 No. 0920001301 Letter on March 27, 2003 specifying the range as follows:

(1)The General Manager and those with equivalent powers

(2) Vice Presidents and those with equivalent powers

(3) Assistant Vice Presidents and those with equivalent powers

(4) Supervisor of the Finance Department

(5) Supervisor of Accounting Department

(6) Other individuals with the authority of managing company affairs and signatory rights

Note 4.If the Director, General Manager, and Vice Presidents have collected employee bonus (including stock bonus and cash bonus), in addition to the attached Table 2-1, this Table shall also be filled out separately.

(E). Analysis of remunerations to the Company's Directors, Supervisors, General Manager and Vice Presidents as a percentage of net profit after tax in the last two years:

1. Analysis of remunerations to the Company's Directors, Supervisors, General Manager and Vice Presidents as a percentage of net profit after tax in the most recent year:

Title	Ratio of total remuneration to net profit after tax %			
	2016		2017	
	The Company	All Companies in Consolidated Statements	The Company	All Companies in Consolidated Statements
Remuneration to Directors	3.22%	3.42%	4.67%	5.07%
Remuneration to Supervisors	0.40%	0.41%	0.23%	0.26%
Remunerations to General Manager and Vice Presidents	1.98%	2.03%	1.48%	1.73%

D. Corporate Governance Practices

(A). Operations of the Board of Directors

The current nine members of the Company's Board of Directors have extensive experience in company operations or expertise in the industry. We rely on the extensive professional knowledge, personal insight and business judgments of Directors. Three out of the nine Directors are Independent Directors including: Winston Won, CPA, former director of Deloitte, Taiwan; Dr. Po-Young, Chu, former Dean of Aspire Academy and Professor of the Department of Management Science, National Chiao Tung University; Mr. Paul T.Y.Huang, former chairman of Chung Hung Steel Corporation. The number of Independent Directors accounts for one third of all Directors.

The Company upholds operational transparency and cares about shareholders interests. We also believe that a sound and efficient Board of Directors is an underlying requirement for optimal corporate governance. Under this principle, the Audit Committee and Remuneration Committee established with the authorization of the Company's Board of Directors assist the Board of Directors in the performance of their supervisory duties. The Charters of the Committees have been approved by the Board of Directors and the Chairman of each Committee periodically reports their activities and resolutions to the Board. All members of the Audit Committee and the Remuneration Committee are Independent Directors.

The Company hopes that every Director attends every meeting of the Board and their respective Committee. In 2017, the average attendance rate of Directors in board meetings was 94%. The attendance rates of members of the Audit Committee and Remuneration Committee were 100% and 100%, respectively.

Chairman Alexander M.T.Su convened a total of eight meetings of the Board of Directors in 2017 and the attendance was as follows:

Title	Name (Note 1)	Attendance in Person (B)	Attendance by Proxy	Attendance in Person Rate (%) [B/A] (Note 2)	Note
Chairman of the Board	Alexander M.T.Su	8	-	100%	
Consecutively Elected Director	Representative of Han De Investment Co., Ltd.: Alexander M.T.Su	8	-	100%	
Consecutively Elected Director	Representative of Trickle Co., Ltd.: Trickle T.C.Chang	8	-	100%	
Consecutively Elected Director	Ming-shan,Jheng	8	-	100%	
Consecutively Elected Director	Fisher C.H.Yu	7	1	88%	
New Director	Johnathon Y.J.Su	4	1	80%	
New Director	Shih-Yang,Chen	4	-	80%	
Independent Director	Winston Won	5	-	100%	
Independent Director	Po-Young, Chu	5	-	100%	
Independent Director	Paul T.Y.Huang	5	-	100%	

Title	Name (Note 1)	Attendance in Person (B)	Attendance by Proxy	Attendance in Person Rate (%) [B/A] (Note 2)	Note
Outgoing Director (Term expired on August 5, 2017)	Xiao-Ru Su	3	-	100%	
Outgoing Director (Term expired on August 5, 2017)	Wan-Chin Tsai	2	-	67%	

Other details that need to be recorded in meeting minutes:

Items specified in Article 14-3 of the Securities and Exchange Act and other items that should be recorded:

A. (A). Items specified in Article 14-3 of the Securities and Exchange Act

Date of Meeting (Term and Session)	Content of the Proposal	Opinions of all Independent Directors and the Company's handling of opinions of Independent Directors
March 14 (19th Session of 13th Board of Directors)	Approval of the amendment of the "Procedures for the Acquisition or Disposal of Assets".	Approved by all Directors The Independent Directors were appointed on August 6, 2017
September 21 (2nd Session of 14th Board of Directors)	Approved the Company's 5th domestic unsecured convertible bonds.	Approved by all Independent Directors
December 19 (5th Session of 14th Board of Directors)	Approval of (1) appointment of Sheng-Hsiung Yao, CPA, of Deloitte as the new chief CPA starting from 2018 and Jui-Na Chang, CPA, as the co-auditor; and (2) service fees and reimbursable expenses for certifying CPAs in 2018.	Approved by all Independent Directors
	Approval of the appropriation of NT$2 million each year from 2017 to 2020 for donation to the Hsin Kuang Steel Tian-Cheng Charity Foundation for use in charitable social welfare projects that meet the purpose of establishment of the Foundation.	Approved by all Independent Directors
	Approval of the purchase of liability insurance for Directors, Supervisors and important corporate officers	Approved by all Independent Directors

(B). Other resolutions that are objected and reserved by the Independent Directors and are documented or stated: No

B. Recusals of Directors due to conflicts of interests: No such occurrences.

C. An evaluation of the goals set for strengthening the functions of the Board and implementation status during the current and immediately preceding fiscal years:

— Three out of the nine Directors of the Company are Independent Directors and the number of Independent Directors is one-third of the entire Board.

— The Audit Committee and Remuneration Committee established with the authorization of the Company's Board of Directors assist the Board of Directors in the performance of their supervisory duties. The members of the two Committees consist of the three Independent Directors. The Chairman of each Committee periodically reports their activities and resolutions to the Board.

— The Independent Directors were appointed on August 6, 2017.

Note 1.If a Director is an institution, names of institutional shareholder and its representative should be disclosed.

Note 2.

(1). If a Director has resigned before the end of the year, the resignation date must be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of the Board of Directors meetings held during the period by the number of the meetings that the Director has actually attended.

(2). If a Director has been reelected before the end of the year, the names of the new and old Directors must be filled in and the resignation, new appointment, second term appointment, or reelection dates shall be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of the Board meetings held during the period by the number of the meetings that the Director has actually attended.

(B).Supervisors' Participation in Board Meetings:

A total of 3 meetings of the Board of Directors were held in the most recent year (2017). The attendance of Supervisors was as follows:

Title	Name (Note 1)	Attendance in Person (B)	Attendance by Proxy	Attendance in Person Rate (%) [B/A] (Note 2)	Note
Supervisor (Term expired on August 5, 2017)	Wen-Lung Li	3	-	100%	No
Supervisor (Term expired on August 5, 2017)	Shih-Yang,Chen	3	-	100%	No
Supervisor (Term expired on August 5, 2017)	Yung-Yu Chiu	3	-	100%	No

Other details that need to be recorded in meeting minutes:

A.Supervisors and their responsibilities:

(A)Supervisors, employees and shareholders' communication (for example, communication channels, methods, etc.): Employees and shareholders can communicate with Supervisors through mail or email. Supervisors can instruct related departments and units of the Company to process opinions if necessary.

(B)Supervisors' communication with internal auditors and CPAs (for example, communication over the Company's financial and business status-the methods and results, etc.):

(1).The audit chief submits the completed audit report to Supervisors for examination in the following month and the Supervisors did not raise any objection.

(2).The audit chief attends submits the completed audit report to Supervisors for examination in the following month and the Supervisors did not raise any objection.

(3).The semi-annual financial reports certified by CPAs, the financial reports, earnings distribution proposals, and business reports certified by CPAs at the end of each fiscal year are submitted to the Supervisors for review and the Supervisors shall submit an Audit Report.

(4).If deemed necessary, Supervisors would communicate directly with CPA on the financial condition of the Company in face-to-face meetings or in writing.

B.When supervisors express opinions during board meetings, the date of the board meeting, the term, contents of the resolution, decisions of the board, and response of the Company to the opinion should be stated: None.

Note 1.If a supervisor is an institution, names of institutional shareholder and its representative should be disclosed.

Note 2.

(1).If a Supervisor has resigned before the end of the year, the resignation date must be specified in the remarks section. The actual attendance rate (%) shall be calculated by dividing the number of meetings held during the period by the number of the meetings that the Supervisor has actually attended.

(2).If a Supervisor has been reelected before the end of the year, the names of the new and old Supervisors must be filled in and the resignation, new appointment, second term appointment, or reelection dates shall be specified in the remarks section. The attendance in person rate (%) is calculated by attendance in person during the period of service.

(C).Operations of the Audit Committee

The Chair of the Audit Committee Winston Won, CPA convened a total of five meetings in 2017 and the attendance of members of the Audit Committee is specified in the Table below. In addition to the aforementioned meeting, the members of the Audit Committee, the certifying accountant, and the management conducted two communication meetings to review the results of the audit (examination) of the financial report and the Internal Control Audit Report compiled by the Company in accordance with the laws and regulations of the Republic of China. They also discussed and communicated on the applicability of certain accounting principles and the impact of newly-amended laws.

Title	Name	Attendance in Person	Attendance by Proxy	Attendance Rate	Note
Chairman	Winston Won	5	-	100%	
Committee Member	Po-Young , Chu	5	-	100%	
Committee Member	Paul T.Y.Huan g	5	-	100%	

Other details that need to be recorded in meeting minutes:

Items specified in Article 14-5 of the Securities and Exchange Act and other items that should be recorded:

A. (A). Items specified in Article 14-5 of the Securities and Exchange Act

Date of Meeting (Term and Session)	Content of the Proposal	Opinions of all Independent Directors and the Company's handling of opinions of Independent Directors
August 7 (1st Session of 1st Audit Committee)	Approved the Company's Quarter 2 financial statements for 2017	Approved by all Directors
September 21 (2nd Session of 1st Audit Committee)	Approved the Company's 5th domestic unsecured convertible bonds	Approved by all Independent Directors
December 19 (5th Session of 1st Audit Committee)	Approval of (1) appointment of Sheng-Hsiung Yao, CPA, of Deloitte as the new chief CPA starting from 2018 and Jui-Na Chang, CPA, as the co-auditor; and (2) service fees and reimbursable expenses for certifying CPAs in 2018. Approval of the appropriation of NT$2 million each year from 2017 to 2020 for donation to the Hsin Kuang Steel Tian-Cheng Charity Foundation for use in charitable social welfare projects that meet the purpose of establishment of the Foundation. Approval of the purchase of liability insurance for Directors, Supervisors and important corporate officers	Approved by all Independent Directors
March 2 (6th Session of 1st Audit Committee)	Approved the Company's 2017 financial statements Approval of the amendment of the "Procedures for the Acquisition or Disposal of Assets".	Approved by all Independent Directors
March 13 (7th Session of 1st Audit Committee)	Approved the 2017 "Statement on Internal Control" Approved the loan to a subsidiary company in which the Company holds 83.37% of shares	Approved by all Independent Directors

(B). Other resolutions that have not been approved by the Audit Committee but have been passed by a vote of two-thirds or more of the entire Board of Directors: No

B. Recusals of Independent Directors due to conflicts of interests: None.

C. Independent Directors' communication with internal auditors and CPAs (including communication over the Company's financial and business status and the methods and results, etc.)

- The Company's internal chief internal auditor periodically communicates with the Audit Committee on the results of the audit reports and the chief internal auditor also formulates the Internal Audit Report in the meeting of the Audit Committee each quarter. The chief internal auditor reports to the Audit Committee promptly in the event of special conditions. There were no such special conditions in 2017. Both the Company's Audit Committee and the chief internal auditor have maintained good communications.
- The Company's certifying CPA reports the results of the audit or examination of the financial statements of the current quarter as well as other items that require communication based on regulatory requirements in the meetings of the Audit Committee each quarter. The chief internal auditor reports to the Audit Committee promptly in the event of special conditions. There were no such special conditions in 2017. Both the Company's Audit Committee and CPAs have maintained good communications.

Communication between Independent Directors and internal auditors and certifying CPA are specified in the Table below:

Date of Meeting (Term and Session)	Communication with the chief internal auditor	Communication with the certifying CPA
August 7 (1st Session of 1st Audit Committee)	Reviewed internal audit reports	
November 7 (3rd Session of 1st Audit Committee)	Reviewed internal audit reports	
December 19 (5th Session of 1st Audit Committee)	－Reviewed internal audit reports －Reviewed and approved the 2018 annual internal audit plan	－Discussed the 2017 financial statements audit plans including any issues or difficulties in audits and the responses of the management －Reviewed the experience, performance, and independence of certifying CPAs －Reviewed the new generally accepted accounting principles (International Financial Accounting Standard (IFRS) 9 and 15) that are applicable starting in January 1, 2018 －Reviewed the current status of the Company's adoption of IFRS 16
March 2 (6th Session of 1st Audit Committee)		－Discussed the 2017 financial statements audit status including any issues or difficulties in audits and the responses of the management －Internal audit status report －Report and description of changes in laws and regulations －Reviewed the current status of the Company's adoption of IFRS 3 and IAS 38
March 13 (7th Session of 1st Audit Committee)	－Reviewed internal audit reports －Reviewed the 2017 "Statement on Internal Control"	

Results: The aforementioned items have been reviewed or approved by the Audit Committee with no objections from the Independent Directors.

(D).Operations of the Remuneration Committee

I. The Company's Remuneration Committee includes 3 members.

II. Current term of office: The current term of office is from August 7, 2017 to August 5, 2020. The Chair of the Remuneration Committee Mr. Winston Won convened a total of four regular meetings in 2017 and the attendance of members of the Remuneration Committee is specified in the Table below:

Title	Name	Attendance in Person	Attendance by Proxy	Attendance Rate	Note
Chairman	Winston Won	4	-	100%	No
Committee Member	Po-Young, Chu	2	-	100%	No
Committee Member	Paul T.Y.Huang	2	-	100%	No
Member (Term expired on August 5, 2017)	Tun-Ting Mou	2	-	100%	No
Member (Term expired on August 5, 2017)	Ming-Sheng Wang	2	-	100%	No

Other details that need to be recorded in meeting minutes:

A.Opinions of the members of the Remuneration Committee that are not accepted or amended by the Board of Directors: None.

B.Objections or reservations by the members that have been recorded in writing during the remuneration committee resolution: None.

(E).Important resolutions made during shareholders and Board of Directors' meetings in recent years and up to the publication date of this annual report:

1.Key Resolutions of the Shareholders Meeting and Implementation

The Company's 2017 general shareholders meeting was held at the Company's Guanyin Plant Conference Office in the Guanyin Industrial Park, Guanyin District, Taoyuan City on June 15, 2017. The resolutions passed by attending shareholders and their statuses of implementation are as follows:

(1).Ratification of the 2016 business report and final financial statements

Implementation status: Ratification of the 2016 business report and final financial statements. The annual consolidated revenue was approximately NT$6,411.68 million and the net profit after tax was approximately NT$749.78 million. The EPS was NT$2.67.

(2).Approval of the Company's 2016 earnings distribution proposal

Implementation status: Approved the distribution of NT$1 in cash dividends to common shares. July 11, 2017 was established as the ex-dividend date and the cash dividends were issued on August 4, 2017.

(3).Approved the proposal for distributing cash dividend from the Company's capital reserve.

Implementation status: Approved the distribution of NT$0.8 in cash dividends (capital reserve) to common shares. July 11, 2017 was established as the ex-dividend date and the cash dividends (capital reserve) were issued on August 4, 2017.

(4).Approval of the amendment of the "Procedures for the Acquisition or Disposal of Assets".

Implementation status: The resolution was passed and has been completed according to the resolution passed by the Shareholders' Meeting.

(5).Election: Election of 14th-term Directors

Implementation status: The newly elected Director included Han De Investment Co., Ltd. (representative: Mr. Alexander M.T.Su), representative of Trickle Co., Ltd. (representative: Mr. Trickle T.C.Chang), Mr. Ming-shan,Jheng, Mr. Fisher C.H.Yu, Mr. Johnathon Y.J.Su, and Mr. Shih-Yang,Chen.

The newly elected Independent Directors were Mr. Winston Won, Dr. Po-Young, Chu, and Mr. Paul T.Y.Huang.

(6).Approved the proposal for the waiver of non-competition clauses for newly elected directors of the Company

Implementation status: The resolution was passed and has been completed according to the resolution passed by the Shareholders' Meeting.

2.Important Resolutions of the Board of Directors

The important resolutions adopted in the Board of Directors' meetings in 2017 up to the date of Annual Report are summarized below:

(1).19th Meeting of the 13th Board of Directors on March 14, 2017:

－Approved the distribution of remuneration to Directors, Supervisors, and employees for 2016;

－Approved the 2016 business report, individual financial statements, and consolidated financial statements;

－Approved the 2016 earnings distribution proposal;

－Approved the distribution of cash paid from capital reserves;

－Approved the 2016 Internal Control Self-Assessment of the Design and Implementation of the Internal Control System to be Effective Report;

－Resolved that the Company shall have nine directors including three Independent Directors and the Directors shall be elected in the Company's 2017 general shareholders meeting;

－Approved the "MRM033 Independent Director Candidate Nomination and Review Standards and Operating Procedures";

—Approved the acceptance of candidates for Independent Director nominated by shareholders in the general shareholders meeting and related affairs;

—Resolved to nominate Mr. Winston Won, Dr. Po-Young, Chu, and Mr. Paul T.Y.Huang as candidates for the Independent Directors who shall participate in the election of Independent Directors in the Company's 2017 general shareholders meeting;

—Approved the submission of the proposal for the waiver of non-competition clauses for newly elected directors to the shareholders meeting;

—Approval of the amendment of "MRM002 Procedures for the Acquisition or Disposal of Assets";

—Organization of the 2017 General Shareholders Meeting.

(2).20th Meeting of the 13th Board of Directors on May 2, 2017:

—Resolved to nominate Mr. Winston Won, Dr. Po-Young, Chu, and Mr. Paul T.Y.Huang as candidates for the Independent Directors who shall participate in the election of Independent Directors in the Company's 2017 general shareholders meeting;

—Approved the financial statements for the first quarter of 2017;

—Approved the proposal for the Company's purchase of real estate properties.

(3).21st Meeting of the 13th Board of Directors on June 15, 2017:

—Established July 11, 2017 as the ex-dividend date and the distribution of cash dividends on August 4, 2017. Each common share shall receive cash dividends of NT$1.8 (NT$1 in cash dividends per share and NT$0.8 in cash dividends from capital reserve).

(4).1st Meeting of the 14th Board of Directors on August 7, 2017:

—All Directors in attendance nominated Mr. Alexander M.T.Su to stay on as the Company's 14th-term Chairman of the Board;

—Resolved to appoint all Independent Directors (Mr. Winston Won, Dr. Po-Young, Chu, and Mr. Paul T.Y.Huang) as members of the Company's 3rd-term Remuneration Committee;

—Approved the proposal for participating in the cash capital increase of the investee company;

—Approved the financial statements for the second quarter of 2017.

(5).2nd Meeting of the 14th Board of Directors on September 21, 2017:

—Approved the construction and development project of Taoyuan Wen Hsiu First Plant;

—Approved the Company's 5th domestic unsecured convertible bonds;

—Approved the proposal for participating in the cash capital increase of the investee company.

(6).3rd Meeting of the 14th Board of Directors on November 7, 2017:

—Approved the financial statements for the third quarter of 2017;

—Approved the Company's internal audit operations and inspection plans for 2018.

(7).4th Meeting of the 14th Board of Directors on December 5, 2017:

—Approved the proposal for the Company's disposal of securities.

(8).5th Meeting of the 14th Board of Directors on December 19, 2017:

—Approved the Company's business plan for 2018;

—Approved the amendment of the Company's "2018 Directors and Managers Remuneration Policy" submitted by the Remuneration Committee;

—Approval of the appointment of Sheng-Hsiung Yao, CPA, of Deloitte as the new chief CPA starting from 2018 and Jui-Na Chang, CPA, as the co-auditor, the assessment on the competency and independence of the CPAs, and remuneration proposal;

—Approval of the appropriation of NT$2 million each year from 2017 to 2020 for donation to the Hsin Kuang Steel Tian-Cheng Charity Foundation for use in charitable social welfare projects that meet the purpose of establishment of the Foundation;

—Approval of the purchase of liability insurance for Directors, Supervisors and important corporate officers.

(9).6th Meeting of the 14th Board of Directors on March 13, 2018:

—Approved the loan to a subsidiary company in which the Company holds 83.37% of shares;

—Approved the distribution of remuneration to Directors, Supervisors, and employees for 2017;

—Approval of the 2017 business report and final financial statements;

—Approval of 2016 earnings distribution proposal;

—Approved the distribution of cash paid from capital reserves;

—Approved the Company's annual Internal Control Self-Assessment Report and Statement on Internal Control;

—Approved the amendment of "MRM002 Procedures for the Acquisition or Disposal of Assets";

—Approved the amendment of "MRM015 Rules of Procedure for the Board of Directors' Meetings";

—Approved the amendment of "MRM023 Remuneration Committee Charter";

—Approved the amendment of "MRM025 Regulations Governing Performance Evaluation of the Board of Directors and Managers";

—Approved the amendment of "MRM029 Rules Governing the Scope of Powers of Independent Directors";

—Approved the amendment of "MRM030 Regulations Governing the Exercise of Powers by Audit Committee";

—Organization of the 2018 General Shareholders Meeting.

(F).Dissenting or qualified opinion of Directors or Supervisors against an important resolution passed by the Board of Directors that is on record or stated in a written statement in the past year and up to the date of report: None.

(G).Differences and Reasoning for the Status of Corporate Governance and Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies:

Evaluation Item	Implementation Status (Note 1)			Discrepancies between its implementation and the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons for such discrepancies
	Yes	No	Summary	
A.Has the Company established and disclosed its code of practice on corporate governance based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?	✓		The Company has established corporate governance principles in accordance with the TWSE and TPEx Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies. Please refer to the description in the "Corporate Governance Report" in this Annual Report (page 22) for the Company corporate governance status.	No
B. Shareholding structure & shareholders' rights (A)Has the company set internal operations procedures for dealing with shareholder proposals, doubts, disputes, and litigation as well as implemented those procedures through the proper procedures?	✓		The Company instructed the General Manager's Office, Administrative Services Department, Shareholder Service Agency and related departments to process shareholder questions, disputes, and litigation and processed related matters accordingly.	No
(B)Did the company maintain a register of major shareholders with controlling power as well as a register of persons exercising ultimate control over those major shareholders?	✓		The Company maintains knowledge of shareholding status of Directors, managers, and shareholders with shareholding ratios of 10% or greater at all times and disclose the information in accordance with regulations. The shareholding structure of the Company remains stable.	No
(C)Did the company establish and enforce risk control and firewall systems with its affiliate enterprises?	✓		The Company has established related regulations on internal control mechanisms in its internal control system and "Transaction Procedures with Related Parties, Specific Companies, and Companies of the Group" in accordance with regulations. Business and financial dealings between the Company and an affiliate are treated as dealings with an independent third party to prevent non-arm's-length transactions.	No
(D)Did the company establish internal regulations stipulating that employees shall not use undisclosed information to engage in the transaction of marketable securities?	✓		The Company has established "Procedures for Handling Material Inside Information" to regulate all company employees, managers, and Directors, as well as those who have learned of the Company's information based on positions or controlling relations to prevent any insider trading activities. The Company also conducts regular internal education, training, and announcements.	No
C. Composition and responsibilities of the Board of Directors (A)Has the Board of Directors devised and implemented a plan for a more diverse composition of the Board?	✓		The nomination of the Company's Board of Directors was carried out in accordance with rigorous internal procedures that not only take into account their professional capabilities but also their personal ethics and leadership reputation. The six members of the Company's Board of Directors consist of Directors and Supervisors with extensive experience in company operations or expertise in the industry. The nomination of the Company's Independent Directors was carried out in rigorous selection procedures that not only take into account diverse backgrounds and professional capabilities but also their personal ethics and leadership reputation. The Company's three current Independent Directors have extensive experience in company operations or expertise in the industry. We rely on the extensive professional knowledge, personal insight and business judgments of Directors. The members of the Board includes three Independent Director who account for one-third of the entire Board. The scope of duties of the Board of Directors, the Chairman, and the General Manager shall be regulated by the "Authorization of Approval Table of the Board of Directors and Management" and the "Duties Division Table of the Board of Directors, Chairman, and General Manager" established by the Company.	No
(B)In addition to Salary and Remuneration Committee and Audit Committee established according to law, has the company voluntarily established other functional committees?		✓	The Audit Committee (established in 2017): The three members are all Independent Directors; The Remuneration Committee (established in 2003): The three members are all Independent Directors; Executive Management and Strategy Committee (established in 2016): The Committee is composed of the management team who regularly reports the implementation status and results to the Board of Directors.	As summarized.
(C)Does the Company establish standards and method for evaluating the performance of the Board of Directors, and implemented it annually?	✓		Based on the Company's ideals for corporate governance, the main duties of the Board of Directors is to supervise and evaluate the performance of the management team, appoint and dismiss managers, decide on important matters, and instruct the management team. Members of the Company's Board of Directors have extensive corporate management experience or professional experience in the industry. They maintain the highest ethical standards and adhere to the commitments made to the Company. The Company convenes Board of Directors meetings regularly every quarter. In addition to approval of various proposals, the Board also discusses with the management team on business strategies and future plans in order to create maximum value for shareholders. The Company's long-term business performance provide ample evidence for the sound performance of the Company's Board of Directors. The Company has established related performance evaluation indicators for the operations of the Board in the "Regulations Governing Performance Evaluation of the Board of Directors and Managers". The Company uses a questionnaire for performance self-assessment and discussion of issues that require special attention in the future.	No
(D)Does the company periodically evaluate the level of independence of the CPA?	✓		The Company's Audit Committee evaluates the independence of CPAs periodically starting in 2017 and reports the evaluation results to the Board of Directors. The evaluation items include the following: 1.The report on the independence of the CPA 2.The audit or non-audit services provided by the CPA to ensure that non-audit services do not affect the results of audits 3.No CPA has provided audit services for over five consecutive years 4.The Company uses an eligibility questionnaire to compile results of the assessment of the independence of CPAs each year	No
D. For companies listed on the TWSE or TPEx, does the Company have a unit or staff that specializes (or is involved) in corporate governance (including but not limited to providing information necessary for directors and supervisors to perform their duties, organizing board meetings and general meetings, handling business registration and any change of registration, and compiling minutes of board meetings and general meetings)?	✓		The Company's Chairman designated the Accounting Department as the unit responsible for Board of Directors meetings. The Company's Legal Compliance Division reports to the Chief Financial Officer directly and it is also responsible for assisting in related affairs including providing information necessary for Directors' operations, convening meetings of the Board of Directors, Committees, and shareholder meetings and recording meeting minutes. The Company's Accounting Department is responsible for company registration and amendment registration. All related registration documents shall require the approval of the General Manager's Office.	No
E. Does the Company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers and suppliers) and properly respond to corporate social responsibility issues of concern to the stakeholders?	✓		The Company instructs the General Manager's Office, Audit Office, Shareholder Service Agency, Administrative Services Department, Human Resources, Customer Service, Procurement, and other departments to communicate with stakeholders in accordance with circumstances. The Company established a spokesperson system on the Company website and contact information with various related business departments. The Company also built a designated section on its website for stakeholders to appropriately respond to important corporate and social responsibility issues that stakeholders are concerned about. The members of the Company's Audit Committee may, when they deem it necessary, communicate directly with stakeholders.	No
F. Has the Company hired a professional agency to handle tasks and issues related to holding the shareholder's meeting?	✓		The Company has appointed the Department of Stock Affairs at President Securities Corp. to process affairs related to shareholders meetings.	No

Evaluation Item	Implementation Status (Note 1) Yes	No	Summary	Discrepancies between its implementation and the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons for such discrepancies
G. Information disclosure (A)Has the company established a corporate website to disclose information regarding the company's financial, business and corporate governance status?	✓		The Company readily discloses related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http:// mops.twse.com.tw).	No
(B) Did the company adopt other information disclosure methods (such as establishing English websites, assign dedicated personnel to collect and disclose company data, implement the spokesperson system, upload the investor conference processes to the company's website, etc.)?	✓		Other means of information disclosure adopted by the Company: 1. The Company instructed the General Manager's Office, Administrative Services Department, and related departments to collect and disclose related information in accordance with regulations. 2. The Company has established a spokesperson system and readily discloses financial and business information, corporate governance information disclosure, the proceedings of institutional investor conferences, and related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http://mops.twse.com.tw).	No
H. Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, continuing education of directors and supervisors, the implementation of risk management policies and risk evaluation standards, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	✓		The Company readily discloses related information on its website (http://www.hksteel.com.tw) and the Market Observation Post System (http://mops.twse.com.tw). (1). Implementation status of employee rights and caring for employees: Company has always treated employees honorably and provides protection of their legal rights in accordance with the Labor Standards Act and related labor regulations. The Company has established a welfare system that provides stability for employees' lives and a sound education and training system to build good relations with employees based on mutual trust and reliance. For instance, the Company subsidizes employees' on-the-job training and provides them with cultural entertainment, subsidies for healthcare, and daily-life necessities for boarding employees. Please refer to the descriptions in the "C. Employees-employer relations" section of the Business Overview in the Annual Report (page 76). (2). Implementation status of investor relations, supplier relations, and the rights and interest of stakeholders: The Company values the opinions of various stakeholders and uses visits, emails, telephone calls, faxes, mail (written, package, and official documents), instant communication software, various forms of meetings (coordination meetings, press conferences, conferences, seminars, and creditors' meetings), associations, video conference, regulations, and other means of active communication to appropriately respond to external requirements. The Company instructed the General Manager's Office, Administrative Services Department, and related departments to process shareholder advice, questions, disputes, and other affairs. Please refer to the descriptions in the "(H) Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 36). (3). Continuing education of Directors: Members of the Company's Board of Directors have extensive corporate management experience or professional experience in the industry. They maintain the highest ethical standards and adhere to the commitments made to the Company. The Company's Legal Compliance Division is instructed to report to the Chief Financial Officer directly and it is also responsible for assisting in related affairs including providing information necessary for Directors' operations and information for related securities regulations. In 2017, the Company arranged the following training courses for all Directors: －The 3-hour "The Impact Anti-Money Laundering Operations on Corporate Governance" course organized by Taiwan Corporate Governance Association. －The 3-hour "Corporate Innovation and Sustainable Development" course organized by Taiwan Corporate Governance Association. In addition, training for the Company's Directors includes the following methods: －The management team conducts briefing on changes in business and regulations and other related information for the Directors (at least once every quarter); －The certifying CPA reports information on changes in regulations and the Company's compliance status to the Independent Directors; and －related training courses chosen by Directors based on their requirements. －The Chairman Alexander M.T.Su logged a total of 12 hours in training courses in 2017. In addition to the aforementioned courses, he attended the "International and Cross-Strait Anti-Tax Evasion New System Analysis and Corporate Response Strategy" and the "Key Analysis of Latest Taxation Reform and Corporate Response Strategy" courses. －The Independent Director Dr. Po-Young, Chu logged a total of 9 hours in training courses in 2017. In addition to the "Corporate Innovation and Sustainable Development" course, he also attended the "Development Trends in Corporate Corruption and Prevention Operations [From the Perspective of Corporate Governance]" and the "Functions of the Board of Directors from the Perspective of Corporate Fraud Prevention" courses. －The Independent Director, Winston Won, logged a total of 6 hours in training courses in 2017 by attending the "Case Studies on Legal Liabilities of Insider Trading and Swing Trading" and "Corporate Social Responsibility Practical Development and Operations" courses. －The Director Johnathon Y.J.Su logged a total of 12 hours in training courses in 2017. In addition to the aforementioned courses, he attended the "Corporate Response Measures Led by Directors in an Environment with Rapidly Changing Technology" and "How Directors fulfill their 'Duty of Care'" courses. (4). Implementation of risk management policies and risk assessment standards: The Company has established various internal regulations and conducted various risk management and assessment in accordance with regulations. Please refer to the descriptions in the "VII.Review of Financial Conditions, Financial Performance and Risk Management" in the Annual Report (page 92 to 106) (5). The Company has purchased liability insurance for Directors and managers.	No
I. Improvements made in the most recent fiscal year in response to the results of corporate governance evaluation conducted by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, and improvement measures and plans for items yet to be improved	✓		The Company's 2016 and 2017 "Corporate Governance Evaluation" results were acceptable. The Company has established Independent Directors and the Audit Committee in 2017 and this item shall increase the Company's score in the "Corporate Governance Evaluation".	No

Note 1.Regardless of whether "Yes" or "No" was selected, explanation shall be provided in the Summary column.

Note 2.A self-assessment report is defined as a report produced by a company on its current corporate operations and implementation based on the self-assessment of its corporate governance items with appropriate explanations provided.

(H)Performance of Corporate Social Responsibility

In addition to focusing on development of its operations in the industry, the Company maintains an ethical and harmonious corporate culture in its fair treatment of shareholders, employees and the public. The Company has adopted basic ideals for compliance with laws, conducts business in accordance with laws, and shall not take part in illegal activities. The Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders. It also provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment. It is the Company's responsibility to take care of the physical and mental needs of employees. The Company also participates in social welfare activities, donates life-support systems and ambulances to give back to society. In the future, the Company shall continue to fulfill corporate social responsibilities and strive to become a good corporate citizen.

The Company has established the 7 principles and objectives for the execution of corporate social responsibilities as follows in order to achieve the goal of becoming a good corporate citizen.

(1).Adhere to the principles of ethics in business management and fulfill the core corporate values of an "ethical and harmonious" corporate culture to provide shareholders, employees, customers, suppliers, and the public with fair treatment.

(2).The Company shall abide by laws, conduct business in accordance with laws, and shall not take part in illegal activities.

(3).The Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders.

(4).The Company provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment to take care of the physical and mental needs of employees.

(5).The Company dedicates itself to long-term care of the community,participates in social welfare activities, and shall continue to sponsor education and cultural activities.

(6).The Company values and continues to implement environmental protection measures in response to climate change.

(7).The Company opposes corruption, rejects nepotism and strictly adheres to principles of recusal in conflicts of interest. The Company does not partake in bribery nor pursue political relations.

The Company firmly believes that both the related domestic regulations and recognized international standards shall be met when advancing environmental protection, safety, and sanitation operations.

The Company also dedicates itself to advancing corporate social responsibilities and safety and sanitation management. The Company has adopted a spirit for continuous improvement to promote safety and health, strengthen resource utilization and pollution prevention, regulate environmental safety and sanitation risks, establish environmental safety and sanitation cultural values, and adopt strategies for constructing green supply chains to fulfill corporate social responsibilities.

The Company continues to dedicate itself to advancing corporate social responsibilities, energy conservation, carbon emissions reduction, resource recycling, and other environmental protection efforts. The Company has always dedicated efforts on reducing greenhouse gas emissions. For a company that has continued to expand productivity and product lines, it is a difficult task to lower carbon dioxide emissions produced in the use of electricity. However, the Company remains dedicated to the planning and execution of these efforts. At the same time, the Company also adopted energy conservation designs in newly-built plants and offices as well as continuous increase in energy efficiency in preparation for the carbon dioxide trade and corporate carbon resources management in future domestic regulations. These measures not only reduce costs but also achieve the objective of lowering CO2 emissions that cause global warming.

The Company also uses rooftop areas of existing factories to set up PV panels to produce energy in order to reduce energy consumption and carbon emissions and implement environmental protection measures. The Company also sets up solar-powered street lights to lower CO2 emissions that cause global warming. The Company also uses rooftop areas of factories to set up PV panels to produce energy and reduces an average of approximately 5,401 metric tons of carbon emissions each year.

Installation Location	Annual Power Generation (kWh)	Annual Carbon Emissions Reduction (metric tons)
Taoyuan City	3,484,169	1,840
Changhua County	2,687,632	1,420
Yunlin County	534,926	283
Chiayi City	588,063	311
Tainan City	1,188,884	629
Kaohsiung City	1,750,200	918
Total	10,233,874	5,401

The Company's production line does not require vast amounts of water resources but in order to effectively use water resources, the Company has also adopted recycling and reuse measures to reduce water consumption in non-production operations. For instance, the Company reduced water consumption in its air-conditioning systems, installed water-conservation devices in sanitation systems, monitors water consumption in washing external walls and irrigation of plants, and decreased general water consumption.

The Company donated a total of NT$920,000 in 2017 to care for the disadvantaged, provide emergency relief, provide children and youth education welfare (established scholarships and low-income stipends), provided year-end dinner parties for the homeless and elderly that live alone, and sponsored the adoption of orphans of Veterans. In the past 10 years, the Company has accumulated donations amounting to over NT$14 million (excluding the NT$20 million founding fund donated to the Tian-Cheng Charity Foundation and donations totaling NT$6.8 million over the past 3 years) to assist the disadvantaged (Genesis Social Welfare Foundation's Year-End Party for the Homeless, Guanyin King Garden Bakery, Chung-Hua Foundation for Persons with Intellectual Disabilities, etc.), talent development (orphans of Veterans, Army

Family Fund's Scholarships for the Poor, Taiwan Action Buddha Society's after school care classes in remote areas), implement community care (rebuilding the Assembly Hall of Longyuan Elementary School, donations for the Kaohsiung gas explosions, etc.) and medical assistance (Taiwan Root Medical Peace Corps' Voluntary medical services in Nepal, donations for ambulances in Guanyin etc.).

The Company and Trickle Co., Ltd. established the "Hsin Kuang Steel Tian-Cheng Charity Foundation" (hereinafter referred to as the "Hsin Kuang Steel Tian-Cheng Charity Foundation") in January, 2009. The Company current Director Trickle T.C.Chang represented the Company and serves as the Chairman of the Foundation. The Foundation contributes to social development and fulfills corporate social responsibilities by providing emergency social assistance, children and youth education welfare, assistance for the disabled, elderly welfare, subsidies for low-income individuals, special medical assistance, and other social charity assistance.

The Company and Trickle Co., Ltd. established the "Hsin Kuang Steel Tian-Cheng Charity Foundation" (hereinafter referred to as the "Hsin Kuang Steel Tian-Cheng Charity Foundation") in January, 2009. The Company current Director Trickle T.C.Chang represented the Company and serves as the Chairman of the Foundation. The Foundation contributes to social development and fulfills corporate social responsibilities by providing emergency social assistance, children and youth education welfare, assistance for the disabled, elderly welfare, subsidies for low-income individuals, special medical assistance, and other social charity assistance. Since its establishment, Hsin Kuang Steel Tian-Cheng Charity Foundation has donated 11 vehicles (for emergency assistance, rehabilitation, and transport of disabled persons to hospitals). The Foundation recognizes the importance of emergency medical aid and it continues to donate ambulances and related equipment to fire departments in Taipei City, Hualien County, New Taipei City, Taichung City, and Hsinchu County. It also donated rehabilitation, shower medical vehicles for Sisters of Our Lady of China Catholic Charity Social Welfare Foundation, and shuttle vehicles for the disabled for Taipei Veterans General Hospital and Chia-Yi Christian Hospital etc. to provide convenience for the disabled in seeking medical care. The Foundation has donated more than NT$34 million since its establishment and the recipients included social welfare organizations and individual disadvantaged groups. Recipients of continuous donations include the aforementioned emergency medical services as well as talent development (intensive courses for the Comprehensive Assessment Program in remote junior high schools, subsidies for tuition fees for elementary and junior high school students from poor families etc.), community care (establishment of a cafeteria for the elderly in Minxiong Township in Chiayi etc.), assisting the disadvantaged (donation of supplies to the Flying Slow Angels and other institutions for the disabled), and donations to hospitals (replacement of medical instruments, subsidies for poor families etc.)

In 2017, Hsin Kuang Steel Tian-Cheng Charity Foundation donated NT$3.44 million (including NT$3.6 million from Hsin Kuang Steel Co., Ltd.) to actively contribute to social development and provided emergency social assistance, children and youth education welfare, assistance for the disabled, elderly welfare, special medical assistance, and other social charity assistance. The main tasks are described below:

Item	Talent Development and Promotion of Education and Culture	Implement Community Care	Assistance for the Disadvantaged	Establishment of Emergency Medical Equipment
Ratio	30.13%	4.59%	57.48%	7.81%

The Company's Chairman Alexander M.T.Su values corporate social responsibilities and established the "Taipei County Private Hui Jung Welfare and Charity Foundation" (hereinafter referred to as the Hui Jung Foundation) in 2003 based on his beliefs to promote the main tasks of "talent development and promotion of education and culture", "implementation of community care", "assistance for the disadvantaged", and "establishment of emergency medical equipment" in order to contribute to society and implement his personal will in caring for society. Since its establishment, Hui Jung Foundation has donated 17 vehicles (for emergency assistance and transport of disabled persons in mountain areas to hospitals). The Foundation recognizes the importance of emergency medical aid and it continues to donate ambulances and related equipment to fire departments in Kaohsiung City, Taoyuan County, New Taipei City, Taichung City, Changhua County, Chiayi County, Yunlin County, Yilan County, and Hsinchu County as well as the Taipei Medical University Hospital. It also donated mobile medical care vehicles for mountain regions to St. Mary's Hospital Luodong to help people living in remote areas. The Foundation donated shuttle vehicles to Hsiang Yuan Memorial Institute and Hung-Chia Sanctuary for the Handicapped. The Foundation has donated more than NT$78 million since its establishment and recipients of continuous donations include the aforementioned emergency medical services as well as institutions for talent development (poor students introduced by various schools and associations such as World Vision Foundation, the Mustard Seed Mission, orphans of Veterans, Ginling Girls' High School, etc.), community care (dance troupes of indigenous peoples, Nanao Jinyue Community Development Association, Association for Victims Support, Taipei Batou Liren Association, the Village of Angelic Children, etc.), assisting the disadvantaged (Genesis Social Welfare Foundation, Associations for the Blind, Associations for the disabled, orphanages, associations for people with hearing, linguistic disabilities, and mental disabilities, students in special education courses in Tianmu Elementary School, individual emergency relief, etc.), and medical assistance (continuous donations to volunteer medical care groups such as Taiwan Root Medical Peace Corps, Taipei Medical University Hospital, and medical care subsidies for poor families).

In 2017, the Hui Jung Foundation donated a total of NT$6.92 million to actively contribute to social development and the work are described below:

Item	Talent Development and Promotion of Education and Culture	Implement Community Care	Assistance for the Disadvantaged	Establishment of Emergency Medical Equipment
Ratio	27.43%	33.04%	34.48%	5.06%

The Company fulfills social responsibilities to all stakeholders. Customers would place more trust in the Company due to its ethical and law-abiding principles as well as its sound corporate management. Investors would be more willing to commit to long-term investments due to the Company's clear core values. Employees would also identify with corporate values and form stronger coherence. The implementation of corporate social responsibilities shall create stronger competitive advantages for the Company, create higher values for shareholders, and produce prosperity for all related parties of the Company.

Performance of Corporate Social Responsibility

Evaluation Item	Implementation Status (Note 1)			Discrepancies between its implementation and the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons for such discrepancies
	Yes	No	Summary (Note 2)	
A.Implementing Corporate Governance (A)Does the company have a corporate social responsibility policy or system in place? Is progress reviewed on a regular basis?	✓		To fulfill corporate social responsibilities and promote the economic, environmental, and social advancement for the purpose of achieving sustainable development, the Company has established the "Corporate Social Responsibility Best Practice Principles" in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies" to provide guidance and manage its risks and impact on the economy, environment, and society. The Company shall actively implement corporate social responsibilities while conducting corporate operations in order to match international development trends in balanced environment, social, and corporate governance development. The Company shall increase its contribution to the national economy and improve the quality of life for employees, communities, and society by fulfilling its duties as a corporate citizen and advance its competitive advantages based on corporate social values. Please refer to "(H) Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 36).	No
(B)Does the company provide educational training on corporate social responsibility on a regular basis?	✓		The Company places great value on legal compliance education and training. The Company not only allows employees to gain knowledge on the latest or closely related regulations through regulation promotion and training courses, but also further strengthens employees' firm commitment to compliance with ethical business policies and social responsibilities. The Company also regularly invites its suppliers or contractors to educate them on the ethical business policies and social responsibilities of the Company to ensure that they fully understand the necessity of the Company's implementation of ethical business policies.	No
(C)Does the company have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors?		✓	The Chairman instructs the General Manager's Office and the Audit Office to implement Company's CSR decision-making and operations. They are also responsible for coordinating all internal units to implement CSR tasks. The Company has included the report on CSR implementation and results of the current year and work plans for the following year into the formal agenda of the Board of Directors meeting every year since 2017.	As summarized.
(D)Does the Company formulate reasonable remuneration policies, integrate employee performance appraisal systems with CSR policies and establish effective reward and punishment systems?	✓		The Company is dedicated to providing its employees above-average benefits and compensation. The Company provides diverse and competitive salary systems as it meets criteria for external competitiveness, internal fairness, and legal requirements. It also upholds the ideal of sharing profits with employees by attracting, retaining, developing, and encouraging outstanding talents of all sectors. As the Company's business performance has been satisfactory in the past 50 years since its establishment, the actual remuneration received by employees has always been higher than our competitors. Compensation for employees include monthly salaries, quarterly performance bonuses in cash, and annual employee bonuses based on profit margins of the year. The quarterly cash bonus and annual employee bonus are given to reward employees for their contributions and to inspire dedication. Employees' interest is aligned with shareholders' interest to create an all-win situation for the Company, its shareholders, and its employees. Employee compensation is based on the Company's business results and the industry average. The total amount and allocation are to be proposed by the Remuneration Committee to the board of directors. In particular, employee compensation is distributed promptly after the proposal is approved by the board of directors. The amount of bonus	No

Evaluation Item	Implementation Status (Note 1)			Discrepancies between its implementation and the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons for such discrepancies
	Yes	No	Summary (Note 2)	
			granted to employees is determined by their responsibilities, contributions, and performance. The goal of corporate governance is to achieve balance among various stakeholders of which the "society" is an integral part. The Company considers corporate governance and business objectives in its formulation of a reasonable salary remuneration policy. CSR is also one of the key indicators in the policy. For more information, please refer to descriptions in "C.Employees-employer relations" in Business overview section of the Annual Report (page 76).	
B.Sustainable Environment (A)Is the company committed to improving the efficiency of the various resources and using recycled materials which have a low impact on the environment?	✓		The Company has established management procedures in response to environmental requirements. For more information, please refer to the "Performance of corporate social responsibility" section in (H) Corporate Governance Report in the Annual Report (page 36).	No
(B)Did the company establish an appropriate environmental management system based on its industry characteristics?	✓		The Company has established an ISO-9001 quality management system. For more information, please refer to the "Performance of corporate social responsibility" section in (H) Corporate Governance Report in the Annual Report (page 36).	No
(C)Did the company monitor the impact of climate change on business operations, implement greenhouse gas audit and formulate energy conservation and carbon reduction as well as greenhouse gas cutback strategy?	✓		The Company values environmental protection policies and regularly reviews electricity consumption within the plants to strengthen the advancement of energy conservation, carbon reduction, and greenhouse gas reduction policies. The Company uses rooftop areas of existing factories to set up PV panels to produce energy in order to reduce energy consumption and carbon emissions and implement environmental protection measures. The Company also sets up solar-powered street lights. For more information, please refer to the "Performance of corporate social responsibility" section in (H) Corporate Governance Report in the Annual Report (page 36).	No
C.Upholding public interests (A)Has the company developed its policies and procedures in accordance with laws and the International Bill of Human Rights?	✓		The Company complies with relevant labor laws and regulations, protects of the legal rights and interests of employees, and communicates with employees in the promotion of company policies and understanding employee opinions through open communication channels. The Company shall establish human resources policies that comply with internationally-recognized principles for the protection of basic labor rights. For more information, please refer to the descriptions in "C. Employees-employer relations" section of the Business overview in the Annual Report (page 76).	No
(B)Has the Company set up an employee hotline or grievance mechanism to handle complaints properly?	✓		The Company values two-way communication and is strives to provide open and transparent communication management between managers and employees and between peer employees. To give attention to employee opinions and sentiment, the Company conducts regular (at least twice every year) labor-management communication meeting and provides employees with fair and effective communication mechanisms to state their opinions in order to understand employee sentiments and quickly process issues raised by employees for the purpose of promoting harmonious labor-management relations and achieving prosperity for the Company and employees. The two-way communication channels established by the Company include: (1)Regular business communication meetingsbetween each level of management and employees. (2)The Company's internal website (contents include the Chairman's announcements, important company information, promotion of recent events etc.) (3)The employee mailbox provides a channel for employees to state general suggestions and opinions with regard to work and the environment. (4)A column for suggestions to the Company is provided in employees' self-assessment. (5)The complaint channels to the Company's Supervisors are provided for major management, financial, and auditing issues.	No
(C)Does the company provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?	✓		The Company believes the employees' health to be the foundation of sustaining normal corporate operations and it is the Company's responsibility to look after the physical and mental health of employees. The Company organizes periodic physical examinations, safety lectures, and labor safety and health training for employees at least once every two years. The Company also organizes regular or	No

Evaluation Item	Implementation Status (Note 1) Yes	No	Summary (Note 2)	Discrepancies between its implementation and the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons for such discrepancies
			unscheduled health promotion activities including aerobics courses, establishment of the breastfeeding room, physical and mental health seminars, and response strategies and health seminars for prevention of new infectious diseases to satisfy employees' health requirements.	
(D)Does the company have channels to communicate with employees on a regular basis, and inform them of operational changes that may be of a significant impact?	✓		Taiwanese laws and the United Nations International Labour Organization strictly prohibit any form of forced labor and the Company also abides by this regulation and has never forced or coerced any individuals to provide labor against their will. The Company values two-way communication and is strives to provide open and transparent communication management between managers and employees and between peer employees. To give attention to employee opinions and sentiment, the Company conducts regular (at least twice every year) labor-management communication meeting and provides employees with fair and effective communication mechanisms to state their opinions in order to understand employee sentiments and quickly process issues raised by employees for the purpose of promoting harmonious labor-management relations and achieving prosperity for the Company and employees.	No
(E)Does the Company offer its employees effective occupational empowerment training programs?	✓		The Company believes that the growth of the Company cannot be achieved without employee development and employees require "systematic, disciplined, and planned" learning and development. The Company dedicates itself to building a lasting and rewarding learning environment and has established the "Education and Training Management Regulations" to provide guidance. It also integrates internal and external resources to cultivate and improve employees' capabilities for employees and the Company to grow together. The Company provides comprehensive learning channels and development resources in accordance with the nature and requirements of personal work, results of performance evaluation, and career development requirements. They include on-the-job training, classroom education, work guidance, internal mentor system, work rotations etc. The Company also systematically provides a series of general knowledge, professional, and management training courses for employees of different levels. The courses include lectures given by external experts and the Company also encourages employees to give lectures to pass on important knowledge of the Company and establish effective career capabilities development training programs for technical personnel. For more information, please refer to the descriptions in "C. Employees-employer relations" section of the Business Overview in the Annual Report (page 76).	No
(F)Has the Company established any consumer protection mechanisms and complaint procedures regarding R&D, purchasing, production, operation and service?	✓		The Company is not a manufacturer of final products and this evaluation item is not applicable.	No
(G)Does the Company comply with applicable laws, regulations, and international guidelines in the marketing and labeling of products and services?	✓		The Company is not a manufacturer of final products and this evaluation item is not applicable.	No
(H)Does the Company evaluate the records of suppliers' impact on the environment and society before doing business with the supplier?	✓		The Company continues to strengthen supply chain management. It requires and encourages suppliers and contractors to constantly improve in quality, costs, delivery period, environmental protection, safety and sanitation. The Company and main suppliers and contractors maintain mutually beneficial cooperation through regular exchanges between management as well as exchanges and sharing of experience in production technologies to enhance partnerships and pursue better performance and greater contributions to the society. As described above, when contractors conduct high-risk operations, they shall be required to clearly define safety protection and preventive measures required of the workers. The contractors that carry out factory construction or work at heights shall also be required to establish Occupational Health and Safety Assessment Series (OHSAS 18001) standards or related control systems. Their employees shall also be required to complete comprehensive work training.	No

Evaluation Item	Implementation Status (Note 1)			Discrepancies between its implementation and the Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies and reasons for such discrepancies
	Yes	No	Summary (Note 2)	
(I)Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause significant impact on the environment and society?	✓		The Company has assembled an internal assessment team from domestic steel plants, materials and resources management, risk management, and quality assurance system management units to conduct supply chain management. The main objective of the assessment team is to lower risks in the supply chain and improve the supply chain. The assessment team shares case studies in risk management with suppliers and helps suppliers improve and raise their quality systems, green procurement, environmental protection and factory safety. At the same time, we also communicate regularly with suppliers or continue to monitor the financial status of main suppliers and inventory changes of the entire supply chain through public information in order to prepare response measures and lower risks. The work team convenes monthly meetings to follow up on the progress of various projects and actively resolves issues for suppliers. The Company's requirements for main suppliers in terms of legal compliance, social environment impact, and corporate social responsibilities are reflected in the annual supplier satisfaction evaluation. For suppliers with poor rating and who have failed to make improvements to meet the Company's requirements, the Company shall impose punishment by reducing or terminating collaboration in accordance with the severity of violations.	No
D.Enhancing information disclosure (A)Has the company disclosed relevant and reliable information regarding its corporate social responsibility on its website and the M.O.P.S.?	✓		The Company places CSR related regulations and education material on the Company's internal website for employees to read at any time. The Company places its Annual Reports and discloses related CSR information on the Company's external website (http://www.hksteel.com.tw) (the Annual Reports are also placed on the M.O.P.S. (http://mops.twse.com.tw)).	No
E. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", please describe any difference between the principles and their implementation: The Company has established the "Corporate Social Responsibility Best Practice Principles" but has not compiled a "Corporate Social Responsibility Report". However, in addition to focusing on development of its operations in the industry, the Company maintains an ethical and harmonious corporate culture in its fair treatment of shareholders, employees, and the public. The Company has adopted basic ideals for compliance with laws, conducts business in accordance with laws, and shall not take part in illegal activities. The Company values corporate governance and seeks to attain balance in the benefits of shareholders, employees, and all stakeholders. It also provides high-quality work opportunities including good pay, challenging work content, and a comfortable and secure work environment. It is the Company's responsibility to take care of the physical and mental needs of employees. The Company also participates in social welfare activities, donates life-support systems and ambulances to give back to society. Please refer to descriptions in "(H) Performance of corporate social responsibility" (page 36) of the Corporate Governance Report in the Annual Report.				
F. Other key information useful for explaining status of corporate social responsibility practices: 1. The Company donated a total of NT$920,000 in 2017 to care for the disadvantaged, provide emergency relief, provide children and youth education welfare (established scholarships and low-income stipends), provided year-end dinner parties for the homeless and elderly that live alone, and sponsored the adoption of orphans of Veterans. 2. In 2017, Hsin Kuang Steel Tian-Cheng Charity Foundation donated NT$3.44 million (including NT$3.6 million from Hsin Kuang Steel Co., Ltd.). 30.13% of the funds were used for "talent development and promotion of education and culture", 4.59% were used for "implementing community care", 57.48% were used for "assistance for the disadvantaged", and 7.81% were used for "establishment of emergency medical equipment" in order to actively contribute to social development. 3. The Company's Chairman <u>Alexander M.T.Su</u> values corporate social responsibilities and established a social welfare and charity foundation who donated NT$6.92 million in 2017. 27.43% of the funds were used for "talent development and promotion of education and culture", 33.04% were used for "implementing community care", 34.48% was used for "assistance for the disadvantaged", and 5.06% were used for "establishment of emergency medical equipment" in order to actively contribute to social development. 4. The Company continues to dedicate itself to advancing corporate social responsibilities, energy conservation, carbon emissions reduction, resource recycling, and other environmental protection efforts. The Company uses rooftop of factories to set up PV panels to produce energy in order to reduce energy consumption and carbon emissions and implement environmental protection measures. The Company also sets up solar-powered street lights. 5. Please refer to the descriptions in the "(H) Performance of corporate social responsibility" section of the Corporate Governance Report in the Annual Report (page 36).				
G.If the corporate social responsibility reports have been certified by external institutions, they should state so below: The Company has passed the ISO-9001 quality management system certification.				

Note 1.Regardless of whether "Yes" or "No" was selected, explanation shall be provided in the Summary column.

Note 2.If the Company has produced a corporate social responsibility report, the Company may reference the CSR report or indicate the page number in the summary.

(I).Ethical corporate management and measures adopted:

The ethical and harmonious corporate culture has always been the Company's core value. The Company has always upheld integrity in all business activities and has always maintained a fair, honest, trustworthy, and transparent code of conduct to put our words into practice.

It is the responsibility of all members of the Company to uphold the Company's core values in our corporate culture and the Company's reputation. Therefore, the Company requires each member of the Company in its Ethical Corporate Management Best Practice Principles (hereinafter referred to as the "Principles") to adhere to the following: avoid sacrificing or conflicting with company interest for personal gains; avoid any bribery, unfair competition, fraud, waste, and abuse of company resources; prohibition against any actions harmful to the Company, the environment, and society; abide by all laws and regulations and respect legislative purposes; avoid any actions that may inappropriately affect anyone's decisions, including government officials, public servants, courts, customers, suppliers, and contractors.

The Principles also require all employees, managers, and Board members to adhere to the core values of the Principles. The Company's management is required to establish a good example for ethical corporate management. The Company's manager, particularly the Chief Executive Officer, Chief Financial Officer, and Chief Information Officer of the product profit center, shall be supervised by the Board of Directors and be responsible for fully, fairly, accurately, promptly, and clearly disclosing the Company's financial and accounting information in financial statements submitted to the competent authority and disclosed to the public.

The Company shall enforce management and punishment to ensure that all employees, managers, and supervisors adhere to the Principles, Ethical Corporate Management Operating Procedures and Code of Conduct. The Company hopes that the Company's customers, suppliers, contractors, consultants, and other partners with contractual relationships understand and respect the Company's corporate culture for ethical, transparent and responsible corporate governance.

In the event that an employee discovers or has reasonable doubts of any violation of the Principles, he/she shall immediately file a report to the following individuals or through the following channels in accordance with the status of the violation: the direct supervisor, the General Manager's Office, internal audit chief, employee complaint channels, or the Supervisors.

Upon discovering or receiving a complaint about involvement of any personnel in unethical conduct, the Company shall ascertain the relevant facts without delay; if it is verified that there is indeed a violation of applicable laws and regulations or the Company's ethical corporate management policies, the Company shall immediately require the violator to cease the conduct and shall punish the individual accordingly. where necessary, the Company shall file for damage claims through legal proceedings to protect the reputation and interests of the Company.

For unethical conduct that have occurred, the Company shall instruct related units to review the internal control system and operating procedures and provide improvement measures in order to prevent the same conduct from reoccurring. The Company shall instruct units to report the unethical conduct, the processing methods, and follow up review and improvement measures to the Board of Directors.

If any of the Company's personnel discovers that another party has engaged in unethical conduct towards the Company, and such unethical conduct is of an illegal nature, the Company shall immediately notify judicial agencies and prosecutors of related facts. If the unethical conduct involves public offices or public servants, the government's agencies against corruption shall be notified.

Implementation of ethical corporate management

Evaluation Item	Implementation Status (Note 1)			Discrepancies between its implementation and the Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies and reasons for such discrepancies
	Yes	No	Summary	
A. Establishment of ethical corporate management policy and approaches (A)Has the company declared its ethical corporate management policies and procedures in its rules and external documents, as well as the commitment of its Board of Directors and management to implementing the management policies?	✓		The ethical and harmonious corporate culture has always been the Company's most important core value. The Company has always upheld integrity in all business activities and has established the "Ethical Corporate Management Operating Procedures and Code of Conduct" as guidance to strictly require each employee to adhere to the ethical policies. The Company also provides detailed explanation of the Company's ethical corporate management policies and the Board of Directors and management's active implementation of these policies.	No
(B)Has the company established policies to prevent unethical conduct with relevant procedures, guidelines of conduct, punishment for violation, rules of appeal clearly stated in the policies, and implemented the policies?	✓		The "Ethical Corporate Management Operating Procedures and Code of Conduct" are the core guidance in the Company's implementation of the above values and ideals. The Company requires all employees, including members of subsidiaries and affiliated enterprises to shoulder the responsibilities of maintaining high-level ethical standards, the Company's reputation, and compliance with regulations in accordance with the Code of Conduct, which is announced on the Company's internal website for employees to reference at any time. In addition, the Company also promotes the Company's core values and compliance policies to employees through education and training courses, posters, educational short films, and other diverse methods. With respect to any suspected violation of ethical conduct, the Company has always maintained the attitude of not punishing the innocent and not permitting the guilty to go unpunished. The Company treats all verified cases with the utmost seriousness and imposes severe punishments on violator such as termination of employment or business relations as well as appropriate legal actions. The Company has included the principles of ethical corporate management as part of employees' performance appraisal and the Company's human resource policy. There are clear and effective systems in place to enforce discipline and reporting of dishonest conduct. If any of the Company's personnel seriously violates ethical conduct rules, the Company shall dismiss the person in accordance with applicable laws and regulations or internal human resources guidelines.	No
(C)Did the company set up preventative measures targeting business activities more susceptible to unethical conduct or activities specified in the provisions prescribed in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEx-Listed Companies"?	✓		In Article 7 of the "Ethical Corporate Management Operating Procedures and Code of Conduct", the Company established related policies and guidelines with regard to different legal compliance requirements under the processing procedures for collecting unlawful interests in order to implement ethical management. All employees of the Company, including subsidiaries and affiliated enterprises, shall be required to understand regulations related to their businesses and make correct business and ethical judgments. The Company's internal auditing department also plays an important role in ensuring ethical management and legal compliance in order to ensure the accuracy, reliability, and promptness in financing, management, and business information and to establish policies, guidelines, procedures, and regulations related to employee conduct. The internal auditing department shall conduct various audits in the annual audit plan approved by the Board of Directors and submit the results of the audit and follow-up improvement plans to the Board and management to implement the effects of the audit.	No

Evaluation Item	Implementation Status (Note 1)			Discrepancies between its implementation and the Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies and reasons for such discrepancies
	Yes	No	Summary	
B. Full Implementation of Ethical Management Principles (A)Does the Company evaluate the integrity of all counterparties it has business relationships with? Are there any integrity clauses in the agreements it signs with business partners?	✓		The Company takes practical actions based on the "Ethical Corporate Management Operating Procedures and Code of Conduct" to assist the Company's customers, suppliers, business partners, and other individuals with whom the Company has business relations, including consultants or other individuals who are authorized to conduct business activities on behalf of the Company, to identify with and implement the Company's ethical management policies and corporate culture. The Company requests all suppliers or contractors to submit written commitments to respect and comply with the Company's ethical management policies and corporate culture. The Company also regularly invites them for education on the Company's ethical management policies in order to understand whether there has been any unethical conduct. In the event that a transaction or cooperation counterparty is found to be unethical, the Company shall terminate business relations immediately and blacklist the counterparty in order to implement the Company's ethical management policies.	No
(B)Did the Company set up full (part) time corporate social responsibility promotional units that are affiliated with the board of directors, and do such units report to the board regarding the status of implementation?	✓		To carry out supervision responsibilities for its ethical management policies, the Company's Board of Directors has established various organization and management procedures such as the Remuneration Committee, the internal audit etc. In addition, the Company has charged the General Manager's Office and internal auditing department to periodically report related implementation status to the Board of directors. Under the supervision of the Board of Directors, the Company's managers, particularly the General Manager, Chief Financial Officer, and Spokesperson shall ensure that the financial and accounting information the Company submits to the competent authority of securities or disclosed to external parties is complete, fair, prepared, prompt, and easy to understand.	No
(C)Did the company establish policies that prevent conflict of interests, provide appropriate channels for filing related complaints and implement such policies and channels?	✓		When the Company hires new employees, it shall request employees to sign the "Commitment to Ethical Conduct" in accordance with requirements. In addition, all employees are required to actively inform the Company of any conflicts of interest or suspected conflicts of interest in accordance with the Company's "Ethical Corporate Management Operating Procedures and Code of Conduct".	No
(D)Did the company establish effective accounting system and internal control systems and designate its internal audit units or commission an accountant to regularly review such systems?	✓		The Company has always valued the accuracy and integrity of its financial report procedures and controls and it has established related internal control systems for operating procedures with potentially higher risks for unethical conduct. The internal auditing unit also carries out various audits in accordance with the annual audit plan established on the results of risk analyses and it reports the results of audits and follow-up improvement plans to the Board of Directors and the management to implement the effects of the audits. The Company also conducts annual self-assessment procedures on internal controls of the Company. The Company's departments and subsidiaries shall inspect the design of the internal control system and the effectiveness of its implementation.	No
(E)Did the Company periodically provide internal and external training programs on integrity management?	✓		The Company places great value on legal compliance education and training. The Company not only allows employees to gain knowledge on latest or closely related regulations through regulation promotion and training courses, but also further strengthens employees' firm commitment to compliance with ethical business policies. The Company also regularly invites its suppliers or contractors to educate them on the ethical business policies of the Company to ensure that they fully understand the necessity of the Company's implementation of ethical business policies.	No

Evaluation Item	Implementation Status (Note 1)			Discrepancies between its implementation and the Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies and reasons for such discrepancies
	Yes	No	Summary	
C. Operation of whistle-blowing system in the Company (A)Has the Company established concrete whistleblowing and reward system and have a convenient reporting channel in place, and assign an appropriate person to communicate with the accused?	✓		The Company established guidelines in the "Ethical Corporate Management Operating Procedures and Code of Conduct" to provide employees with channels to report any inappropriate financial or legal conduct. If an employee suspects that unethical conduct has occurred, he/she is responsible for reporting to the direct supervisor or the highest ranking officer in the Administrative Services Department, report through existing employee reporting channels, or notify the Supervisors directly. The Company shall establish independent internal report mailbox and dedicated line on the company website and internal website and assign personnel to take charge of processing reports. The Company shall keep the identity of the whistle-blower and the content confidential.	No
(B)Did the company establish standard operating procedures for investigating reported issues as well as relevant confidential mechanisms?	✓		As specified in the internal regulations, the Company maintains the confidentiality of received reports and subsequent investigations and processes reports rigorously.	No
(C)Did the company adopt measures for protecting the whistle-blower against improper treatment or retaliation?	✓		The Company strictly prohibits any form of retaliation against whistle-blowers who provided reports in good faith or individuals who assist in investigations.	No
D. Enhancing information disclosure (A)Has the Company disclosed its Ethical Corporate Management Best Practice Principles and progress onto its website and M.O.P.S.?	✓		The Company places related regulations and education material for ethical corporate management policies on the Company's internal website for employees to read at any time. The Company places its Annual Reports and discloses related information on ethical corporate management policies on the Company's external website (http://www.hksteel.com.tw) (the Annual Reports are also placed on the M.O.P.S. (http://mops.twse.com.tw)).	No
E. If the company has established Ethical Corporate Management Best Practice Principles in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies", describe difference with the principles and implementation status: The Company has established the "Ethical Corporate Management Best Practice Principles" and "Ethical Corporate Management Operating Procedures and Code of Conduct". All employees, managers, Board members, and subsidiaries shall follow the provisions in the Principles and related regulations. Regarding the implementation of the Company's ethical corporate management policies, please refer to "(I) Ethical corporate management and measures adopted" (page 44) in the Corporate Governance Report.				
F. Other critical information conducive to understanding the operation of the company's integrity management: (e.g., review/revision of the company'sEthical Corporate Management Best Practice Principles) 1. The Company shall disclose the its ethical management policies in internal regulations, Annual Reports, company website, or other materials and declare the policies at appropriate times in product launch events, investor conferences, and other external activities so that the Company's suppliers, customers or other related institutions and personnel are fully aware of the Company's principles and rules with respect to ethical corporate management. 2. When carrying out business activities, the Company shall explain its ethical management policies and related regulations to counterparties and clearly refuse to directly or indirectly offer, promise to offer, request or accept any improper benefits, including kickbacks, commissions, facilitation payments, or offer or accept improper benefits in any other form. 3. When the Company signs contracts with other entities, it shall fully understand the status of the counterparty's ethical management and include provisions requiring compliance to its ethical management policies and unconditional termination or cancellation of the contract at any time in the event of unethical conduct by the other party. 4. The Company shall periodically organize training and awareness programs for Directors, managers, employees, and substantial controllers and invite the companies' commercial transaction counterparties so they understand the companies' resolve to implement ethical corporate management, the related policies, prevention programs and the consequences of committing unethical conduct. 5. The Company shall apply the policies of ethical corporate management when creating its employee performance appraisal system and human resource policies to establish a clear and effective reward and discipline system. 6. The Company shall at all times monitor the development of relevant local and international regulations concerning ethical corporate management and encourage Directors, managers, and employees to make suggestions, based on which the adopted Ethical Corporate Management Best Practice Principles will be reviewed and improved with a view to achieving better effectiveness of ethical management. Please refer to the descriptions "(I) Ethical corporate management and measures adopted" in the Corporate Governance Report in the Annual Report (page 44).				

Note 1.Regardless of whether "Yes" or "No" was selected, explanation shall be provided in the Summary column.

(J).Corporate governance principles, related guidelines, and the means of accessing this information:

The Company readily discloses related information on the Market Observation Post System (http://mops.twse.com.tw).

(K).Other important information of the Company's corporate governance practices: None.

(L).Status of implementation of internal control system

1.Statement on Internal Control

Hsin Kuang Steel Co., Ltd.

Statement on Internal Control **Stock Code: 2031**

Date: March 13, 2018

The Company hereby makes the following statement about its internal control system for the year 2017 based on its self-assessment:

A. The Company acknowledges and understands that the establishment, enforcement and maintenance of the internal control system are the responsibility of the Board of Directors and management, and that the company has already established such a system. The objective is to provide reasonable assurances that the goals of operational effectiveness and efficiency (including profitability, performance, asset security, etc.), financial report reliability, timeliness, transparency, and regulatory compliance will be achieved.

B. Internal control regulations possess inherent shortcomings. Regardless of its design, an effective internal control system can only provide reasonable assurance of the three objectives as mentioned above. Furthermore, its effectiveness may change due to changes in the Company's environment and circumstances. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.

C. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Governing Regulations for Public Company's Establishment of Internal Control System" (hereinafter called "Governing Regulations") that are related to the effectiveness of internal control systems. The criteria introduced by the "Governing Regulations" cover the process of management control and consist of five major elements, each representing a different stage of internal control: (1) Control Environment, (2) Risk Evaluation, (3) Control Operation, (4) Information and Communication, and (5) Monitoring. Each of the elements in turn contains certain audit items. Please refer to "Governing Regulations" for details.

D. The company has already adopted the aforementioned internal control system judgment items to assess the effectiveness of the internal control system design and implementation.

E. Based on the findings of the aforementioned examination, the Company believes it can reasonably assure that the design and implementation of its internal control system as of December 31, 2017 (including supervision and management of subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant regulatory requirements, have achieved the aforementioned objectives.

F. This statement shall be an integral part of the Annual Report and prospectus of the Company and will be made public. Should any of the aforementioned disclosure contents be fictitious or concealed in an illegal manner, the company shall bear legal responsibilities pursuant to Articles 20, 32, 171, and 174 of the Securities Exchange Act.

G. This statement was approved by the Board on March 13, 2018 in the presence of 9 Directors, who concurred unanimously.

	Hsin Kuang Steel Co., Ltd.		
	Chairman of the Board:	Alexander M.T.Su	Signature
	General Manager:	Alexander M.T.Su	Signature

2.According to requirements of the Securities and Futures Bureau of the Financial Supervisory Commission, if the company engages an accountant to examine its internal control system, it shall disclose the CPA examination report: None.

(M). Penalty on the Company and its personnel or punishment imposed by the Company on personnel in violation of internal control system regulations, major deficiencies and improvement in the past year and up to the date of report**: None.**

(N). Summary of resignation or dismissal for chairman, general manager, accounting manager, finance director, chief internal auditor, and R&D managers in recent years up to the annual report publication date**: None**

E. Information on CPA Audit Fees:

The Company's CPA audit fees shall be approved by the Audit Committee and submitted to the Board of Directors for approval

Amount: NT$1,000

Name of Accounting Firm	CPA Name	Audit Fee	Non-Audit Fees					Auditing Period	Note
			System Design	Business Registration	Human Resources	Others (Note 1)	Total		
Deloitte	Chao-Ling Chen, Chiang-Pao Liu,	3,360	-	294	-	-	294	2017.01.1~ 2017.12.31	

Note 1.Note 1: Mainly fees for related accounting search tools.

Note 2.Note 2: The Company has not experienced incidents specified in Article 10, Subparagraph 5, Item 1 of the Regulations Governing Information to be Published in Annual Reports of Public Companies.

(A).When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are equivalent to one quarter or more of the audit fees paid thereto, the amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed: Not applicable: No such occurrences.

(B).Companies that have switched accounting firms and whose annual audit shared expenses are less than that of the previous year prior to the switch: No such occurrences.

(C).The audit fee is more than 15% less than that paid in the previous year: No such occurrences.

F. Information on change of accountants:

(A).Regarding Previous CPA

Date of Change	Approved by the Board of Directors on December 19, 2017		
Reason for Replacement and Explanation	In accordance with requirements for rotations of CPAs in related regulations, the Company's current chief CPA Chao-Ling Chen shall be replaced by Sheng-Hsiung Yao, CPA starting in 2018. The Company's current co-auditor Chiang-Pao Liu, CPA shall be replaced by Jui-Na Chang, CPA starting in 2018.		
State whether the client or the CPAs have terminated or rejected the appointment	Contracting parties / Scenario	CPA	Client
	Termination initiated by client	Not applicable	Not applicable
	CPA declined to accept (continue) the appointment	Not applicable	Not applicable
Opinion and reason for the issuance of audit reports containing opinions other than unqualified opinions in the most recent two fiscal years	No		
Opinions different from those of issuer	Yes		Accounting principles or practices
			Disclosure of financial statements
			Audit scope or procedures
			Other
	No	✓	
	Description	No such circumstances	
Other items for disclosure (items that should be disclosed in accordance with Article 10, Subparagraph 6, Item 1-4 to 1-7 of the Regulations)	No		

(B).Regarding Succeeding CPA

Name of CPA Firm	Deloitte
CPA Name	Sheng-Hsiung Yao, Jui-Na Chang
Date of Appointment	Approved by the Board of Directors on December 19, 2017
Subjects and outcomes of consultation on the accounting treatment of or application of accounting principles to specific transactions, or opinions that may be included on financial statements before the appointment of new CPAs	No
Written opinions from successor CPAs with regards to matters with which former CPAs disagreed	No

(C).Previous CPAs' reply to Article 10, Subparagraph 6, Item 1 and Item 2-3 of the Regulations: None

G. The Company's Chairman, General Manager and Vice President, financial responsible person, or accounting affairs manager who has served in a certified public accountant firm or its affiliates: None.

H. Share transfer by directors, supervisors, managers and shareholders holding more than 10% equity and changes to share pledging by them in the past year and up to the date of report

1. Share Equity Change Status for Directors, Supervisors, Managers and Major Shareholders

Title (Note 1)	Name	2017		Current year up to April 30	
		Additional (Reduction) of Shares Held	Increase (Decrease) in Pledged Shares	Additional (Reduction) of Shares Held	Increase (Decrease) in Pledged Shares
Chairman of the Board	Alexander M.T.Su	—	—	(400,000)	—
Director	Han De Investment Co., Ltd.	—	—	200,000	—
Director	Trickle Co., Ltd.	—	—	—	—
Director	Ming-shan,Jheng	—	—	—	—
Director	Fisher C.H.Yu	—	—	—	—
Director	Johnathon Y.J.Su	—	—	—	—
Director	Shih-Yang,Chen	—	—	—	—
Independent Director	Winston Won	—	—	—	—
Independent Director	Po-Young, Chu	—	—	—	—
Independent Director	Paul T.Y.Huang	—	—	—	—

Note 1.Shareholders with over 10% of the Company's total share shall be classified as major shareholders and listed separately.

Note 2.Information regarding the transfer of shares or shares pledged to the counterparty being the related party shall be filled in the following Table.

2. Information on transfer of shares: There has been no transfer of shares with counterparties who are related parties.

3. Information on pledged shares: There have been no shares pledged to counterparties who are related parties.

4. Overview of reinvestment business: Please refer to the descriptions in the "Important Notice " in the Annual Report (page 107 to 112).

I. Information on the relationship between any of the top ten shareholders (related party, spouse, or kinship within the second degree)

J. The shareholding of the Company, directors, supervisors, managers and an enterprise that is directly or indirectly controlled by the Company in the reinvestment business

Unit: Shares; %

Reinvestment business (Note)	Investment by the Company		Investments of Directors, Supervisors, Managers and Directly or Indirectly Controlled Businesses		Comprehensive Investment	
	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio	Number of Shares	Shareholding Ratio
Hsin Yuan Investment Co., Ltd.	17,000,000	100%	—	—	17,000,000	100%
Sinpao Investment	USD 4,173,498	99.82%	—	—	USD 4,173,498	99.82%
Hsin Ho Fa Metal Co., Ltd.	10,143,159	83.37%	—	—	10,143,159	83.37%
Hsin Kuang Alga Engineering Co., Ltd.	8,520,000	68.16%	—	—	8,520,000	68.16%
China Steel Sumikin Vietnam	VND 18,368,000	2%	—	—	VND 18,368,000	2%
Hsin Wei Solar Co., Ltd.	2,880,000	40%	—	—	2,880,000	40%
Hsin Ching International Co., Ltd.	12,000,000	60%	—	—	12,000,000	60%
Mason Metal Industry Co., Ltd.	24,500,000	49%	500,000	1%	25,000,000	50%
Chinese Myanmar Investment Co., Ltd.	150,000	7.50%	—	—	150,000	7.50%
Century Wind Power	3,000,000	6.67%	—	—	3,000,000	6.67%
Shang Yang Venture Capital	392,000	1.07%	—	—	392,000	1.07%
Dah Chung Bills Finance	423,863	0.10%	—	—	423,863	0.10%
InnoVision Venture Capital	1,076,400	3.47%	—	—	1,076,400	3.47%
Linkou Entertainment	1	0.10%	—	—	1	0.10%
Envirolink	1,750,000	12.50%	—	—	1,750,000	12.50%

Note: The Company's investments accounted for by the equity method and investment in available-for-sale financial products that have been fully recognized as losses are not be included.

IV. Fundraising Conditions

A. Capital and Shares

(A). Source of capital

As of March 31, 2018

Month/Year	Issuance Price	Authorized Capital		Paid-in capital		Note		
		Number of shares	Amount (NT$)	Number of shares	Amount (NT$)	Source of capital	Subscriptions paid with property other than cash	Date of approval and document number
April 2017	10	360,000,000	3,600,000,000	306,193,739	3,061,937,390	Corporate bonds turned common shares NT$70,061,460	No	Implemented in accordance with the Jin-Guan-Zheng-Fa No. 1040044543 Letter dated November 9, 2015.

(B). Capital and Shares

As of April 21, 2018

Type of Stock	Authorized Capital					Convertible bonds converted to ordinary stocks
	Current issued shares			Un-issued shares	Total	
	Issued	Not issued	Total			
Registered common stocks	309,807,603	-	309,807,603	50,192,397	360,000,000	13,052,802

(C). Shareholder Structure

As of April 21, 2018

Shareholder Structure / Amount	Government Agencies	Financial Institutions	Other Institutions	Individual investors	Foreign institutions and foreigners	Total
Number of People	-	-	108	40,823	96	41,027
Number of shares	-	-	76,739,836	204,672,360	28,395,407	309,807,603
Shareholding ratio	-	-	24.77%	66.06%	9.17%	100.00%

(D). Shareholding Distribution Status

NT$10 per share April 21, 2018

Shareholding classification	Number of shareholders	Number of shares	Shareholding ratio
1 - 999	20,605	1,356,872	0.44%
1,000 - 5,000	15,057	32,027,235	10.34%
5,001 - 10,000	2,614	21,186,853	6.84%
10,001 - 15,000	833	10,426,573	3.37%
15,001 - 20,000	549	10,280,515	3.32%
20,001 - 30,000	481	12,272,564	3.96%
30,001 - 50,000	365	14,715,177	4.75%
50,001 - 100,000	275	19,455,517	6.28%
100,001 - 200,000	127	18,500,823	5.97%
200,001 - 400,000	47	12,935,726	4.18%
400,001 - 600,000	18	9,039,363	2.92%
600,001 - 800,000	14	9,543,742	3.08%
800,001 - 1,000,000	8	7,162,410	2.31%
1,000,001 and above	34	130,904,233	42.24%
Total	41,027	309,807,603	100.00%

(E). List of Primary Shareholders

1. List of Primary Shareholders

April 21, 2018

Shares / Primary shareholder name	Number of shares	Shareholding ratio
Han De Investment Co., Ltd.	17,050,276	5.50%
Alexander M.T.Su	16,600,719	5.36%
Trickle Co., Ltd.	14,662,469	4.73%
Hui Rong Enterprise Co., Ltd.	8,030,916	2.59%
Johnathon Y.J.Su	7,704,930	2.49%
Chen Yu Investment Co., Ltd.	7,010,873	2.26%
Alexander M.T.Su 's dedicated trust account in First Commercial Bank	6,000,000	1.94%
Pictet Bank's investment account under the trust of HSBC	5,257,000	1.70%
Trickle T.C.Chang	5,228,283	1.69%
Vanguard FTSE Emerging Markets Stock ETF Account under the trust of Standard Chartered Bank	4,041,000	1.30%

2. Information Disclosing the Relationship between any of the Top Ten Shareholders

April 21, 2018

NAME (NOTE 1)	PERSONAL SHAREHOLDING		SHARES HELD BY SPOUSE AND UNDERAGE CHILDREN		TOTAL SHAREHOLDING BY NOMINEE ARRANGEMENT		TITLES, NAMES AND RELATIONSHIPS APPLICABLE TO TOP 10 SHAREHOLDERS WITH RELATIONSHIPS SPECIFIED BY SFAS NO. 6, SPOUSE AND KINSHIP WITHIN THE SECOND DEGREE. (NOTE 3)		NOTE
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Name	Relationship	
Han De Investment Co., Ltd. Representative: Alexander M.T.Su	17,050,276	5.50%	17,716,487	5.72%	-	-	Alexander M.T.Su	The Chairman	
Alexander M.T.Su	16,600,719	5.36%	1,115,768	0.36%	-	-	Johnathon Y.J.Su Han De Investment Co., Ltd.	Father-son Representative	
Trickle Co., Ltd. Representative: Trickle T.C.Chang	14,662,469	4.73%	5,228,283	1.69%	-	-	Trickle T.C.Chang	Representative of Institutional Director	
Hui Rong Enterprise Co., Ltd. Representative: Alexander M.T.Su	8,030,916	2.59%	17,716,487	5.72%	-	-	Alexander M.T.Su	The Chairman	
Johnathon Y.J.Su	7,704,930	2.49%	-	-	-	-	Alexander M.T.Su Chen Yu Investment Co., Ltd.	Father-son Representative	
Chen Yu Investment Co., Ltd. Representative: Johnathon Y.J.Su	7,010,873	2.26%	7,704,930	2.49%	-	-	Johnathon Y.J.Su	The Chairman	
Alexander M.T.Su 's dedicated trust account in First Commercial Bank	6,000,000	1.94%	17,716,487	5.72%	-	-	Alexander M.T.Su	The Chairman	
Pictet Bank's investment account under the trust of HSBC	5,257,000	1.70%	-	-	-	-			
Trickle T.C.Chang	5,228,283	1.69%	-	-	-	-	Trickle Co., Ltd.	Corporate Director	
Vanguard FTSE Emerging Markets Stock ETF Account under the trust of Standard Chartered Bank	4,041,000	1.30%	-	-	-	-			

Note 1. The names of the top ten shareholders shall be disclosed and the names and representatives of corporate shareholders shall be listed separately.

Note 2. The calculation of the shareholding ratio refers to the ratio of shares held by the individual, the spouse, underage children, or through nominee arrangements.

Note 3. Relationships between the shareholders described above, including institutions and natural persons, shall be disclosed pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

(F). Market price per share, net worth, earnings, dividends, and the related information for the last 2 years

Item	Year	2016 (Distributed in 2017)	2017 (Distributed in 2018)	Current fiscal year up to 2018/4/30 (Note 5)
Market price per share (Note 1)	Maximum	17.62	34.10	52.50
	Minimum	15.25	21.00	38.80
	Average	16.32	26.14	33.88
Net Value Per Share	Pre-distribution	18.53	21.19	21.92
	After distribution	16.73	19.19	23.92
Earnings per share	Weighted Average Shares	279,725,215	305,739,522	306,193,739
	Diluted earnings per share	2.62	3.30	2.93
Dividend per share	Cash Dividend	1.80	2.00	-
	Accumulated Unpaid Dividend	-	-	-
Investment Return Analysis	Price-earnings ratio (Note 2)	6.11	7.92	-
	Price-dividend ratio (Note 3)	9.07	13.07	-
	Cash dividend yield (Note 4)	11.03%	7.65%	-

Note 1. Source of information is the TWSE website.
Note 2. Price earnings ratio = average closing price per share for the year / earnings per share.
Note 3. Price dividend ratio = average closing price per share for the year / cash dividend.
Note 4. Cash dividend yield = cash dividends / average closing price per share for the year.
Note 5. The net value per share and earnings per share shall include information audited (reviewed) by the CPA in the most recent quarter up to the publication date of the Annual Report; the other fields shall include information from the current year up to the publication date of the Annual Report.

(G). Dividend Policy and Implementation Status

1. Company Dividend Policy

The Company has adopted a balanced dividend policy to protect shareholder interest and the goal of sustainable development.

The Company shall not distribute dividends in shares or in interests in the absence of retained earnings in the current year. The Company has distributed cash dividends to shareholders every year since 2000. The Company will continue to follow a consistent and sustainable dividend policy. Capital budget planning for the next year will be based on actual profits and financial, sales, and management performance in the current year, and the most appropriate cash dividend distribution proposal will be determined accordingly. The board of directors of the Company passed the earnings distribution proposal for a cash dividend of NT$2 per share as shown in the table below on March 13, 2018. The Company will proceed to carry out the proposal after it is approved by the general shareholders meeting on June 19, 2018.

2. Dividend Distribution to be Proposed to the Shareholders Meeting

<table>
<tr><th colspan="2"></th><th>Amount Distributed Per Share (NT$)</th><th>Source</th></tr>
<tr><td colspan="2">Cash Dividend</td><td>NT$1.50</td><td>Undistributed earnings</td></tr>
<tr><td colspan="2">Cash Dividend</td><td>NT$0.50</td><td>Capital reserve</td></tr>
<tr><td rowspan="2">Total</td><td>Cash Dividend</td><td>NT$2.00</td><td>Undistributed earnings and capital reserves</td></tr>
<tr><td>Total</td><td>NT$2.00</td><td></td></tr>
</table>

(H). The effects of the stock dividends on the Company's business performances, earnings per share and shareholder ROI: Not applicable

(I). Employee Bonus and Director and Supervisor Remuneration

(1). Pursuant to the Company's Articles of Incorporation, if the Company has profit for the year, 3% or less shall be set aside as remuneration for Directors and Supervisors and no less than 3% shall be set aside as remuneration to employees.

(2). 2017 Distribution of Remuneration to Directors, Supervisors, and Employees:

1. The Company's 2017 Earnings Distribution Statement was approved in the 6th meeting of the Company's 14th-term Board of Directors on March 13, 2018. After the Statement is passed in the resolution of the general shareholders meeting on June 19, 2018 and approved by the competent authority, the Board of Directors shall establish a stock (dividend) distribution dates for implementation.

2. Use of earnings in current year for distribution of employee remuneration and Director/Supervisor remuneration:

Unit: NT$

Item	2017
Directors and Supervisors Remuneration	38,308,764
Employees Remuneration (distributed in cash)	38,308,764

Note: 1. The amount of the aforementioned remuneration for Directors and cash bonus is consistent with the resolution by the Board of Directors on March 13, 2018. The aforementioned employee cash bonus shall be distributed after resolution in the 2018 general shareholders meeting.

2. The amount passed by the Board of Directors and the amount recognized in the financial statements differ by NT$192,180, which is due to an adjustment of the assessed net profits before tax. Employee remuneration and Director/Supervisor remuneration were overestimated by NT$192,180. The excess was offset by recognizing a negative expense adjustment in 2018.

3. The ratio of proposed employee stock bonus allocation compared to the individual financial report net profit after tax for the quarter and the total employee bonuses: Not applicable.

(3). Use of earnings in 2016 fiscal year for distribution of employee bonus and director/supervisor remuneration:

Unit: NT$

Item	Resolution of the Meeting of the Board of Directors	Actual appropriated amount (Note)
Directors and Supervisors Remuneration	25,876,175	25,876,175
Employees Remuneration (distributed in cash)	25,876,175	25,876,175

Note: The amount of the aforementioned remuneration for Directors and cash bonus is consistent with the resolution by the Board of Directors on March 14, 2017. The aforementioned employee cash bonus shall be distributed after resolution in the 2017 general shareholders meeting.

(J). Buyback of Treasury Stock: No

B. Issuance of Corporate Bonds:

(A). Corporate bond issuance status

<table>
<tr><td colspan="2">Corporate bond type
(Note 2)</td><td>Fifth issuance of unsecured convertible corporate bond
(Note 5)</td></tr>
<tr><td colspan="2">Issuance (processing) date</td><td>November 9, 2017</td></tr>
<tr><td colspan="2">Face value</td><td>NT$100,000</td></tr>
<tr><td colspan="2">Place of issue and trading (Note 3)</td><td>Republic of China</td></tr>
<tr><td colspan="2">Issue price</td><td>NT$100.2 (issued at par value)</td></tr>
<tr><td colspan="2">Total of Face value</td><td>NT$600,000,000</td></tr>
<tr><td colspan="2">Interest rate</td><td>0%</td></tr>
<tr><td colspan="2">Term</td><td>5 years Maturity date: November 9, 2022</td></tr>
<tr><td colspan="2">Guarantor</td><td>No</td></tr>
<tr><td colspan="2">Trustee</td><td>Trust Department, Hua Nan Commercial Bank Co., Ltd.</td></tr>
<tr><td colspan="2">Underwriter</td><td>Taishin Securities Co., Ltd.</td></tr>
<tr><td colspan="2">Certifying lawyer</td><td>Yi-Cheng Peng, Handsome Attorneys-at-Law</td></tr>
<tr><td colspan="2">Certifying CPA</td><td>Deloitte
Chao-Ling Chen, Chiang-Pao Liu CPA</td></tr>
<tr><td colspan="2">Payback method</td><td>The principle is repaid in lump sum by wire transfer or check, except where the bonds are converted into the Company's common shares in accordance with Article 10 of the Regulations on the Issuance and Conversion of Corporate Bonds for the Company's fifth issuance of unsecured corporate bonds or called prematurely by the Company in accordance with Article 17 of the same regulations.</td></tr>
<tr><td colspan="2">Outstanding principal</td><td>NT$469,900,000 （2018/4/30）</td></tr>
<tr><td colspan="2">Terms and conditions for redemption or early repayment</td><td>During the period starting on the day after three months have elapsed since issuance of the convertible corporate bond (February 10, 2018) and ending on the day before only forty days remains until maturity (September 30, 2022), if the Company's common stock closes at more than 30% higher than the convertible price at the time for thirty consecutive business days, and the outstanding balance of the convertible corporate bond is below 10% of the total issue, the Company may buy back the bonds at par value, and proceed in accordance with Article 17 of the Regulations on the Issuance and Conversion of Corporate Bonds for the Company's fifth issuance of unsecured corporate bonds.</td></tr>
<tr><td colspan="2">Restrictive terms and conditions (Note 4)</td><td>No</td></tr>
<tr><td colspan="2">Name of credit rating institution, rating date, outcome of corporate bond rating</td><td>No</td></tr>
<tr><td rowspan="2">Other rights attached</td><td>Converted to ordinary (exchange or subscription) shares, global depository receipts, or other marketable securities as of the date of this annual report</td><td>NT$130,100,000 (2018/4/30)</td></tr>
<tr><td>Issuance and conversion (exchange or subscription) method</td><td>Please refer to the Regulations pertaining to issuance and conversion.</td></tr>
<tr><td colspan="2">Issuance and conversion, exchange or subscription methods, and the condition of issuance that may dilute share equity and affect the rights of existing shareholders</td><td>Please refer to the Regulations pertaining to issuance and conversion.</td></tr>
<tr><td colspan="2">Name of custodian for the exchange bid</td><td>No</td></tr>
</table>

Note 1. Administration of corporate bonds can be divided into public offering and private placement. Public offering of corporate bonds refers to those approved/authorized by the FSC; private placement of corporate bonds refers to those approved/authorized by the board of directors.

Note 2. Please use additional rows as needed.

Note 3. To be filled if bonds are issued by foreign companies.
Note 4. If cash dividend distribution or overseas investments are restricted, or if a certain percentage of assets is required to be maintained etc.
Note 5. Private placement shall be specified clearly.
Note 6. The conversion of corporate bonds, exchange of corporate bonds, summary report of issued corporate bonds or bonds with warrant shall be listed in accordance with their properties before disclosing information on conversion corporate bonds, exchange of corporate bonds, summary report of issued corporate bonds or bonds with warrant.

(B). Convertible bond data

Corporate bond type (Note 1)		Fifth domestic unsecured convertible bonds		
Item \ Year		2016	2017	Current fiscal year up to 2018/4/30 (Note 4)
Market price of converted corporate bonds (Note 2)	Maximum	–	102.50	144.00
	Minimum	–	100.50	102.50
	Average	–	101.53	116.21
Conversion price		NT$36.00		
Issue (processing) date and conversion price at issuance		Issuance date: November 9, 2017 Conversion price at issuance: NT$36.00		
Methods of fulfilling conversion obligations (Note 3)		Issuance of new shares		

Note 1. Please use additional rows as needed.
Note 2. If there are multiple transaction locations for issuance of overseas corporate bonds, they shall be indicated in accordance with the location of issuance.
Note 3. Number of shares delivered or new shares issued.
Note 4. Information of the current year up to the publication date of the annual report.

(C). Information on exchange of corporate bonds: None.
(D). Information for shelf registration: None.
(E). Information on corporate bonds with warrant: None.

C. Issuance of preferred stocks (with subscription rights): None

D. Issuance of global depositary receipts (GDR): None

E. Exercise of employee stock option plan (ESOP): None

F. Names of managerial officers receiving ESO and names of top ten employees receiving ESO, their exercise and subscription: None

G. Restricted stock awards: None

H. Mergers, acquisitions or issuance of new shares for acquisition of shares of other companies: None

(A). Mergers, acquisitions or issuance of new shares due to acquisition of shares of other companies that have been completed in the past year and up to the date of report:

1. Evaluative opinions submitted by the lead underwriter for mergers, acquisitions or issuance of new shares for acquisition of shares of other companies in the most recent quarter: None
2. If the implementation status in the most recent quarter fails to reach expected objectives in terms of progress or performance, the impact to shareholder equities and improvement plans shall be described in detail: None

(B). Resolutions adopted by the Board of Directors in the past year and up to the date of report approving a merger, acquisition, or issuance of new shares due to acquisition of shares of other companies: None

I. Fund Implementation Status:

The Company has been authorized by the Financial Supervisory Commission in its Jin-Guan-Zheng-Fa No. 1060038847 Letter dated October 19, 2017 to issue its fifth issuance of domestic unsecured convertible corporate bonds to raise a total of NT$603 million and the offering was completed on November 7, 2017. The funds raised in this round were used for the purchase of equipment to complete land compaction in building sites, expansion of plants, and purchase of machinery and equipment.

(A). Plan

J. Unit: NT$1,000

Item	Expected completion date	Total amount of capital required	Planned timeline for fund utilization					
			2018				2019	
			Q1	Q2	Q3	Q4	Q1	Q2
Land compaction in building sites	2019 Q1	80,000	-	20,000	20,000	20,000	20,000	-
Expansion of plants	2019 Q2	498,000	-	48,000	100,000	100,000	100,000	150,000
Purchase of machinery and equipment	2019 Q2	25,000	-	-	-	5,000	10,000	10,000
Total		603,000	-	68,000	120,000	125,000	130,000	160,000
Expected benefits		The offering of the fifth issuance of domestic unsecured convertible corporate bonds was completed in the fourth quarter of 2017 and raised NT$601,200,000. The fund is intended to pay for the purchase of equipment to complete land compaction in building sites, expansion of plants, and purchase of machinery and equipment. The building site compaction project, expansion of plants, and purchase of machinery and equipment are aimed to expand the range of equipment at hand and modify the production lines to improve production efficiency and make the Company more competitive, which in turn will facilitate future plans and reduce operational risks.						

(B). Implementation status:

Unit: NT$1,000

<table>
<tr><th>Item</th><th colspan="2">Status</th><th>2018 Q1</th><th>as of Q1 2018</th><th>Reasons for deviating from schedule and plans for improvement</th></tr>
<tr><td rowspan="4">Land compaction in building sites</td><td rowspan="2">Expenditure</td><td>Planned</td><td>-</td><td>-</td><td rowspan="16">Since the contractor is still in the process of applying for a building permit, the application procedures and preparations are still ongoing, and related projects are progressing as scheduled under the fund utilization plan without material deviation.</td></tr>
<tr><td>Actual</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Progress</td><td>Planned</td><td>-</td><td>-</td></tr>
<tr><td>Actual</td><td>-</td><td>-</td></tr>
<tr><td rowspan="4">Expansion of plants</td><td rowspan="2">Expenditure</td><td>Planned</td><td>-</td><td>-</td></tr>
<tr><td>Actual</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Progress</td><td>Planned</td><td>-</td><td>-</td></tr>
<tr><td>Actual</td><td>-</td><td>-</td></tr>
<tr><td rowspan="4">Purchase of machinery and equipment</td><td rowspan="2">Expenditure</td><td>Planned</td><td>-</td><td>-</td></tr>
<tr><td>Actual</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Progress</td><td>Planned</td><td>-</td><td>-</td></tr>
<tr><td>Actual</td><td>-</td><td>-</td></tr>
<tr><td rowspan="4">Total</td><td rowspan="2">Expenditure</td><td>Planned</td><td>-</td><td>-</td></tr>
<tr><td>Actual</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Progress</td><td>Planned</td><td>-</td><td>-</td></tr>
<tr><td>Actual</td><td>-</td><td>-</td></tr>
</table>

The Company made its fifth issuance of domestic unsecured convertible corporate bonds to raise funds for the building site compaction project, expansion of plants, and purchase of machinery and equipment. The building permit is still pending, and the contractor continues to make the appropriate applications and preparations. No expenses have been claimed, and therefore there is no material deviation.

According to the fund utilization plan, the building site compaction project and expansion of plants are scheduled to begin in the second quarter of 2018. No construction work has started at the end of the first quarter of 2018. There is no change of item or funding, and therefore no change of plan is involved at present.

V. Business Overview

A. Business activities

(A). Scope of business

The scope of the consolidated entity's main business operations include: (1) Leveling of various steel coils; cutting and stamping of various 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, 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). Investment in various production businesses, securities investment companies, bank and insurance companies; (7). Wholesale and retail of various metal construction materials; (8). Production, purchase, and sales of various metal products (vibration isolation systems for buildings and vibration isolation dampers for bridges); (9) All business items that are not prohibited or restricted by law, except those that are subject to special approval.

(B). Revenue distribution

In the business operation of the consolidated entity in 2017, the revenues from its main products out of the total sales revenue were 42.2% from steel plates, 4.6% from special steel plates, 23.7% from hot-rolled steel plates, 12.9% from stainless steel, 12.4% from steel sections, and 4.2% from steel structure components. The ratios for domestic sales and exports are 91% and 9%.

(C). Current products and services:

a. Sales and purchase of current products and materials: steel plates, special steels, patterned and hot-rolled steel plates, stainless steel, steel sections, galvanized steel plates, steel structure components (including vibration isolation systems for buildings and vibration isolation dampers for bridges).

b. Cutting and processing of completed products:

(a). Cut to length of steel plates, special steels, galvanized steel plates, and patterned and hot-rolled steel plates.
(b). Processing of steel plates, special steel plates, galvanized steel plates, and patterned and hot-rolled steel plates into special sizes.
(c). Cut to length of stainless steel materials or processing for special shapes and sizes.
(d). Polishing and precision processing of stainless steel materials.
(e). Agency for import of steel materials of special specifications and material.
(f). Production and processing of steel structure components, box-columns, steel section columns, and span columns.
(g). Production and processing of patterned worker's board.

(D). New products under development

A. Pickled steel plates and pickled steel coils.
B. Joint subcontracting in material supply and cutting services.

B. Market, production and sales

(A). Production & Marketing Profile

The consolidated entity's operating revenue was NT$8,351,912,000 in 2017, up by 30.26% compared to 2015, and the net operating profit NT$994,525,000, up by 32.23%. The consolidated entity had a good year and delivered a good overall performance in

2017. 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. The operating goal in 2017 was the sale of 380,000 metric tons of steel products, and the Company produced and sold 360,000 metric tons. The achievement rate was 94.2%.

In order to establish the Company's long-term advantages, the Company has implemented the following business strategy guidelines in 2017 to achieve the optimal results: Business: Adopt complex management styles for sales of multiple categories of steel; Public and private construction: Adopt concerted cooperation and accept new purchase orders. Training: Recruit new hires to increase the overall quality of the workforce. Start with training and encouragement and assignment of appropriate responsibilities to ensure talent is placed where the potential can be realized and used to improve efficiency and performance. 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 offshore wind power farms and underwater foundations, develop solar photovoltaic materials, and expand overseas investments. Customer relationship management: Focus on the value curve and develop new customers. The Company has always insisted upon providing services with its expertise in steel material services and it continues to integrate corporate resources and implementation to enhance the overall core capabilities of the Company. It also invests in digitalization for more efficient corporate operating procedures in order to provide customers with the most comprehensive one-stop services. The Company ensures its outstanding performance in the intensely competitive industry through the management and operations of corporate resources, diverse and comprehensive customer services, and fast logistics distribution and sales services.

(B). Market Analysis

1. Sales and service regions main products and services:

   The Company's main products and services include the cutting, processing, and sales of various steel plates and steel sections. It mainly supplies the domestic market and sales channels are spread across more than 2,000 customers across the island.

   The ratios of Company's domestic sales in each region are 60% for the Northern Region, 22% for the Central Region, and 18% for the Southern Region in 2017. Domestic sales accounted for 91% of sales while exports accounted for 9% of sales.

2. Market share and future supply and demand conditions:

   (1). Market Share:

   The Company plays a key role in connecting upstream and downstream industries in the second processing and cutting process between the steel refinery products and the terminal industrial products in the steel industry. The Company has established professional the "Steel Materials Logistics Center", "Building Steel Cutting Center", "Steel Structure Components Production Center" and an island-wide distribution network to integrate related upstream and downstream industries, fully exert the functions of the satellite system with Hsin Kuang Steel at its center, and assist the Company in production and marketing plans.

To increase market competitiveness and become the material supply center with the most comprehensive cutting equipment in Taiwan, the Company has purchased fully-automated cutting equipment with high cutting quality and high efficiency each year. The Company shall also increase its market share by adopting the marketing strategy for the "Steel Materials Logistics Center" and an island-wide distribution network.

The company forms strategic alliances and vertical integration in the industry to jointly take part in public construction tenders and major private construction in order to advance its sales of steel materials and cutting services to joint subcontracting material supply services. The Company's comprehensive services provided to customers and the mutual strengthening and mutual support in various activities in the value chain have formed competitive advantages difficult for competitors to imitate and surpass.

According to statistics compiled by the CommonWealth Magazine, in the rankings of the top 2,000 manufacturers in 2017, the Company's consolidated revenue of NT$8.352 billion placed it in the No. 348 spot and No. 20 spot in metal resources industries. The Company is the only medium to thick steel plate cutting center qualified and registered by the Industrial Development Bureau, Ministry of Economic Affairs. The Company is equipped with a full range of equipment and it provides excellent quality and fast delivery. It is the top supplier in terms of the scale of cutting operations and it provides comprehensive transportation services. These factors have won the Company recognition and trust in the industry.

(2). Supply and demand for the future market:

The recovery in the domestic steel industry gains traction as the government invests in the economy and continues to advance large-scale public construction projects. Private investments and increases in industrial plants, office buildings, and other construction also continue to increase demand for steel materials and contribute to the prosperity in the steel industry. The Company plays a key role in connecting the upstream and downstream enterprises in the steel industry as it fulfills the functions of the "Steel Product Logistics Center", "Building Steel Cutting Center", and "Steel Structure Components Production Center", which shall continue to grow each year with the growth of the industry.

a. Steel Plates

Large-scale domestic public construction projects include: The continued operations of the High Speed Rail, Taoyuan Airport MRT, MRT in Taipei and Kaohsiung, private power plants, Sixth Power Transmission and Construction Project, large-scale steel mills, harbor expansion etc. According to the "Demand Forecast of Steel Products in Taiwan from 2017 to 2022" compiled by Taiwan Steel & Iron Industries Association, long-term projects such as the continued implementation of urban renewal projects and the increase in the area and production in the application for building licenses. as well as the recovery of the shipbuilding industry and the increase in its utilization rates shall continue to benefit growth in the steel structure, pipe manufacturing, and machinery industries due to the stable growth in the economy and construction industry. The Association's forecast for the period from 2017 to 2022 places the average growth rate for the demand of steel plates at 2.52%. The demand volume in 2018 is estimated at 1.386 million tons and the demand growth rate is 3.10%. The steel plates purchased by the Company from China Steel account for approximately 15% of its sales volume in thick steel plates. The Company is also a cutting center for medium to thick steel plates registered with the Industrial Development Bureau, Ministry of Economic Affairs. The Company's comprehensive cutting capabilities, professional cutting technologies, and the island-wide distribution network of its logistics center can provide customers with the convenience of a one-stop service and sustain continued growth in the industry.

b. Special Steel Plates

Special steel is widely used and it is the main material for key components. The requirements for quality are also higher and the annual growth rate in Taiwan is approximately 10%. The special steel plates the Company cuts mainly include medium-carbon steel plates and alloy steel plates used for molds. The Company's new equipment ensures accuracy and stable quality and its extensive island-wide sales channels ensure stable growth each year. In 2008, the Company built a second plant in Kaohsiung to expand the production of special steel and provide abundant supply to downstream manufacturers in the Central and Southern Regions. The new plant will increase revenue and contribute to profitability.

c. Hot-Rolled/Cold-Rolled Steel Plates

According to the "Demand Forecast of Steel Products in Taiwan from 2017 to 2022" compiled by Taiwan Steel & Iron Industries Association, long-term development in the main downstream industries for hot-rolled steel plates such as cold-rolled and galvanized steel plates have limited room for growth in demand in the domestic market. The main source of power for growth in demand for hot-rolled products shall be the direct export of cold-rolled and galvanized steel plates. In addition, the production of steel tubes and the automobile industry shall increase with stable economic growth. The Association forecasted that the average growth rate of the demand for hot-rolled steel products from 2017 to 2022 is 2.82% and the demand in 2018 is 4.448 million tons with a demand growth rate of 4.00%. The Association forecasted that the average growth rate of the demand for cold-rolled steel products from 2017 to 2022 is 1.42% and the demand in 2018 is 2.05 million tons with a demand growth rate of 2.00%. The Company's Northern Region Steel Coil Cutting Center and the Central Region Steel Coil Cutting Center have a total of eight sets of steel roll flattening and automated cutting machines and the cut hot-rolled steel plates can be used for computer cases, buildings, auto and motorcycle parts, fuse box components, machinery, hardware components etc. The Company is able to supply the market with 80,000 to 120,000 metric tons of products each year and the supply can be increased in accordance with growing market demand.

According to the "Demand Forecast of Steel Products in Taiwan from 2017 to 2022" compiled by Taiwan Steel & Iron Industries Association, as the domestic construction, auto industry, and auto parts continue their mild growth over the long term, the demand for the hot-rolled galvanized steel products will grow by an average of 1.7% per year from 2017 to 2022. The Association forecasted that the average growth rate of the demand for hot-rolled galvanized steel products in 2018 is 1.627 million tons with a demand growth rate of 2.30%.

According to the "Demand Forecast of Steel Products in Taiwan from 2017 to 2022" compiled by Taiwan Steel & Iron Industries Association, as long-term demand for galvanized steel grows due to the demand for panels, electronic and optical products, the demand for the galvanized steel products will grow by an average of 2.38% per year from 2017 to 2022. The Association forecasted that the demand for galvanized steel products in 2018 is 100,000 tons with a demand growth rate of 4.00%.

The Company is able to supply the market with approximately 20,000 metric tons of hot-rolled galvanized and galvanized steel products each year and the supply can be increased in accordance with growing market demand.

d. Stainless Steel

According to the "Demand Forecast of Steel Products in Taiwan from 2017 to 2022" compiled by Taiwan Steel & Iron Industries Association, as the domestic demand for hot-rolled stainless steel products continues to grow due to growth in petrochemicals and coal products, cold-rolled stainless products, pipe production, and machinery industry, the demand for the hot-rolled stainless steel products will grow by an average of 1.47% per year from 2017 to 2022. The Association forecasted that the demand for hot-rolled stainless steel products in 2018 is 1.41 million tons with a demand growth rate of 1.99%.

According to the "Demand Forecast of Steel Products in Taiwan from 2017 to 2022" compiled by Taiwan Steel & Iron Industries Association, as the domestic demand for cold-rolled stainless steel products continues to grow due to growth in domestic construction, petrochemicals and coal products, and metal utensils industry, the demand for the cold-rolled stainless steel products will grow by an average of 0.91% per year from 2017 to 2022. The Association forecasted that the demand for hot-rolled stainless steel products in 2018 is 633,000 tons with a demand growth rate of 1.2%.

The Company's Stainless Steel Cutting Center was established in the first quarter of 2001 and it adopted the latest computer statistics control system in the fully-automated plasma cutting equipment. The Company also purchased more cutting equipment in 2004 to provide diverse, high quality, and high precision cutting services in order to create profits in high-added value cutting services. The additional stainless steel flattening and cutting machine set established by the Company in 2005 is now in operations and it can provide downstream customers with stainless steel plates of more diverse sizes and helps the business development of the stainless steel profit center. The stainless steel production and cutting base and the additional stainless steel flattening and cutting machine, the latest shearing machine from Italy, and other equipment established by the Company in 2007 have been in operations since early 2008. They provide downstream customers with higher precision in stainless steel plates and help the business development of the stainless steel profit center. The stainless steel polishing plant established by the Company in 2010 has been in operations since the first quarter of 2011 and it can provide downstream customers with higher precision in stainless steel plates and help the business development of the stainless steel profit center.

e. Steel Section

The Company's Steel Sections Department mainly conducts sales of imported round steel bars with larger sizes. The main purpose is to provide processing for machinery components, screws, nuts, hand operated tools, magnetic components for speakers etc. According to the "Demand Forecast of Steel Products in Taiwan from 2017 to 2022" compiled by Taiwan Steel & Iron Industries Association, as the stable growth of the global economy brings forth growth in hand operated tools, automobiles, motorcycles, related components, and the screws and nuts industry, the demand for the round steel bars will grow by an average of 0.89% per year from 2017 to 2022. The Association forecasted that the demand for round steel bar in 2018 is 1.424 million tons with a demand growth rate of 1.00%.

f. Comprehensive Analysis

As the economy grows, the government continues to promote large-scale public construction projects and plans the second National Development Plan in the new century. Private investment in new industrial plants, offices, and buildings lead to growth in demand for steel materials from the 4.2 million tons in 1982 to an estimated 45.65 million tons in 2018. The demand continues to grow. China's rapid economy development led to extensive improvements in all hardware constructions and it has become a world-class consumer for steel. Its development has spurred overall demand in the steel industry and the steel industry shall enjoy several years of rapid development in the future. The Company believes that only by innovation of equipment, diversified product lines, increase in product quality, and implementation of corporate resource operations can we survive and prosper in the fiercely competitive market. Therefore we shall continue to make full use of the functions of the "Building Steel Cutting Center", "Steel Product Logistics Center", and "Steel Structure Components Production Center" to continue operations and sustain growth in the industry.

(3). Favorable and unfavorable factors for the operating goals and development:

The Company's main business plan in 2018 was to generate profits. It shall increase the ratio of steel cutting services and logistics services for steel products and increase the production of patterned worker's board and polishing and processing of stainless steel. The Company's internal operations goal is to achieve 383,000 metric tons in annual output in 2018. Favorable and adverse factors for the Company's long-term growth and strategy are as follows:

a. Favorable factors:

(a). The steel industry is the basis for national development and a key industry for economic development. The industry is closely related to other industries and it forms the basis for industries such as transportation, machinery, shipbuilding, construction, electrical engineering etc. The steel industry has therefore been known as the mother of all industries. Taiwan's strong capital foundations and the government's recent campaigns to support so-called "Forward-looking Infrastructures" and offshore wind power offer transformation opportunities for end-use industries. The steel industry and other end-use industries are, as a result, reporting increased domestic capital expenditures, which is increasingly beneficial to the steel cutting industry.

(b). The Company's full range of cutting equipment, its state of art steel structure components production line, product line, and inventories provide more comprehensive services than other firms in the industry to satisfy requirements of different customers. They are assisted by the Company's comprehensive and high-performance distribution services to form the fully functional "Building Steel Cutting Center", "Steel Product Logistics Center", "Stainless Steel Polishing and Cutting Center", "Surface Galvanized Steel Product Cutting Center", and "Steel Structure Components Production Center".

The Company, in order to meet the demand in the supply chain of offshore wind power equipment, created the "Elbow Production Center for Foundations and Underwater Foundations".

The Company, in order to meet the demand in the supply chain of solar power infrastructures, created the "Building Steel Cutting Center".

(c). The BOT model adopted in public construction projects will increase the demand for steel, particularly for airports, high-speed rail, industrial and commercial complexes, ultra-high financial buildings, renewal projects for military communities, the Sixth Power Transmission and Construction Project, MRT systems for metropolitan areas, the Danjiang Bridge Project, and the Taoyuan International Airport Terminal 3 "Apron, Taxiway, and Apron Facility Project". The Company's has established a central-satellite cooperative system and strategic alliances to advance joint subcontracting in large-scale public and private construction projects, provide professional cutting services and production services for steel structure components, and open up more business opportunities.

(d). The expansion in the production and export of steel products has been met by strong demands from Southeast Asia. The demand for steel products brings forth faster economic development and a higher demand for steel products. Over the long term, these developments would cause Taiwan to become the supply center for steel products in Asia Pacific.

b.Unfavorable factors:

(a). Steel prices and market demand began their declines in the third quarter of 2011 due to stagnation in the international economy. The steel industry faces more intense competition in vertical supply as new challenges arose in business operations and strategies.

(b). Insufficient entry-level laborers and the vast increase in wages due to reduced work hours and labor laws affect production expenditure.

(c). The supply and demand order on the market remains to be established in the wake of the liberalization of the steel import and export and the lowered threshold for secondary processing operators.

(d). The domestic private investment environment has performed poorly in recent years and numerous industries have relocated to Mainland China or Southeast Asian countries. Recent international economic development has not been satisfactory and domestic investment, import/export, and industrial output can no longer sustain past growth rates in the future.

(4). Short-Term Business Plan

a. The Company shall expand production levels through more investments, expand the market, and maintain the market share in cutting and logistics.

b. Develop new customers and new applications with sophisticated existing cutting technologies to maintain Hsin Kuang Steel's market share in the global steel materials industry.

c. Advance the promotion of Hsin Kuang Steel's business and services in emerging and developing markets.

(5). Long-Term Business Development Plans

a. The Company shall use its exceedingly stable foundations that include over 2,000 long-term domestic and foreign customers, intensive partnerships with upstream domestic and foreign steel mills, integrated domestic logistics networks, availability of storage space and land in the plants, sophisticated cutting equipment, automated transportation equipment and fleets, and young talents with potential to provide comprehensive pre-sales and after-sales services to satisfy customers.

b. Since it started taking contracts to manufacture and supply offshore wind power equipment and green industry supplies, the Company has been improving its cutting and manufacturing technologies and developing offshore wind mill maintenance projects to satisfy the needs of world class wind farm developers. The scope of services and length of service period are also extended.

c. The Company shall continue to develop innovative business models from reasonably profitable business models uncovered from the value chain that promotes customer satisfaction and increase the contribution of related applications.

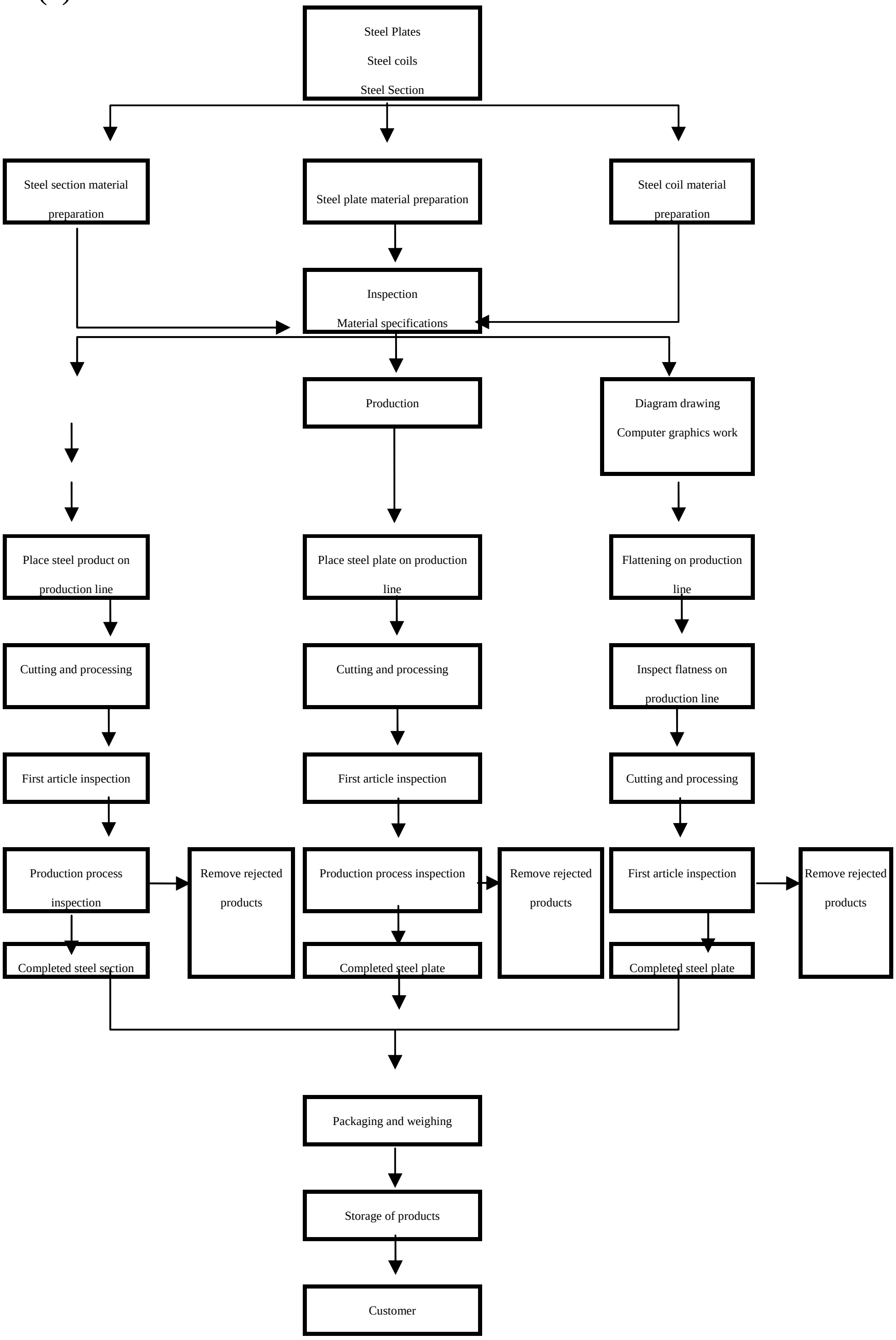
d. The Company shall also provide more integrated services that include integrated strategies for steel products, further enhancement of cutting technologies, and optimal strategic plans to provide customers with higher value.

3. Important Applications and Manufacturing Processes of Main Products

(1). Applications of Main Products:

<table>
<tr><th colspan="2">Name of Main Product</th><th>Applications</th></tr>
<tr><td colspan="2">Steel Plates</td><td>Offshore wind power foundations and underwater foundations, basic steel frame structures (production and installation of steel structure box-columns and BH steel column components), pot bearing for bridges, vibration isolation bearings for buildings, shipbuilding industry, machinery, steel bridge materials, oil pipes, storage tanks, public construction, Taipower high-voltage steel towers, telecommunication towers etc.</td></tr>
<tr><td colspan="2">Special Steel Plates</td><td>Mechanical parts, pressure vessel, wear-resistant steel, hot steel mold, cold steel mold, stamping steel mold, automobile and motorcycle parts, base molds, steel for tools etc.</td></tr>
<tr><td rowspan="3">Hot-Rolled Steel Plates (Steel Coils)</td><td>Patterned Steel Plates (Steel Coils)</td><td>Anti-skid plates, plates for stairs, parking lot equipment plates, walkways for chemical plants, pedals for large vehicles and machinery, patterned worker's boards etc.</td></tr>
<tr><td>Hot-Rolled Steel Plates (Steel Coils)</td><td>Automobile and motorcycle parts, hardware parts, computer cases, steel pipe, light steel, accessories for general household electrical appliances, base for machinery, fuse box etc.</td></tr>
<tr><td>Hot-Rolled Galvanized Steel Plates (Steel Coils)</td><td>Internal/External plating and components for automobiles, case and base for general household electrical appliances, base for washing machines, computer hard drive cases, sliding rails, ducts, air ducts, vending machines and casing and parts, steel doors, building materials etc.</td></tr>
<tr><td colspan="2">Stainless Steel</td><td>Construction steel structure, vessels for petrochemicals, automobile and motorcycle parts, hardware parts, aviation structural materials, steel pipes, light steel, accessories for general household electrical appliances, base for machinery, fuse box etc.</td></tr>
<tr><td colspan="2">Steel Section</td><td>Steel frames for factories, construction steel frame, mechanical parts, automobile and motorcycle parts, axles, crane materials, base and arch steel materials etc.</td></tr>
<tr><td colspan="2">Metal products (vibration isolation systems for buildings and shock-absorbent dampers for bridges)</td><td>The ASBD shock isolation system provides vertical bearing capacity for columns and isolates and reduces the destructive forces of earthquakes from the building. It also uses high-performance energy dissipators to control the movement of the structure maintain comfort levels suitable for daily lives. There are no special restrictions of its use in buildings and it is suitable for structures using reinforcing steel or special structures such as buildings integrated with mass transportation systems.
Pot bearings for roads, highways, light rails (MRT), high speed rails, bridges, and other buildings, vibration isolation bearings for bridges, elevated bearings for various bridges, special anti-corrosion bearings, electrically insulated bearings, water-resistant materials for high speed rail, dampers, bearings for shear devices, steel shear boxes, anti-uplift devices, vibration resistant/isolation devices, expansion joints, and other component products for steel structures.</td></tr>
</table>

(2). Production Process of Main Products



1. State of Supply of Main Materials

Main Material	Main Source	Supply Status
Steel Plates	China Steel, Japan, Brazil, Korea, Ukraine, China, India	Good
Special Steels	China Steel, Japan, Korea, China	Good
Patterned Steel Plates	Japan, Korea, Brazil	Good
Hot-Rolled Steel Plates	China Steel, Dragon Steel, Japan, Brazil, Korea, Shang Chen Steel	Good
Hot-Rolled Galvanized Steel Plates	China Steel, Japan, Brazil, China	Good
Stainless Steel Products	Japan, Sweden, Finland, Germany, China, Vietnam	Good
Steel Section	Dragon Steel, Feng Hsin Steel, Japan, South Korea, Russia	Good

2. Customer list for those whose import (sales) volume are more than 10% of the total in any given year for the last 2 years

   (1). Names of main customers in the last 2 years: None of the Company's customers have exceeded 10% of the Company's annual revenue in transactions in 2017 and 2016.

   (2). Names of main suppliers in the last 2 years: The supply from Company A accounted for over 10% of the Company's annual purchases in 2017. Compared to 2016, the purchases from Company A accounted for over 10% of the Company's annual purchases.

(3).

Main supplier information for last two years

Unit: NT$1000

	2016				2017				2018 up to the end of the first quarter			
Item	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Name	Amount	Total annual net purchase ratio (%)	Relationship with the issuer	Name	Amount	Net purchase ratio from the end of the year to the previous quarter (%)	Relationship with the issuer
1	A	2,061,981	37.90	No	A	2,763,686	37.15	No	A	806,896	44.52	No
2								No				No
3												
	Other	3,377,942	62.10		Other	4,674,788	62.85		Other	1,005,408	55.48	
	Net purchase	5,439,923	100		Net purchase	7,438,474	100		Net purchase	1,812,304	100	

Note 1. List the names of suppliers who accounted for more than 10% of the purchases of the Company in the last two years, and the ratio to total purchases. However, if name of the supplier cannot be disclosed due to contractual obligations or if the transaction party is an individual and not a related party, the entity may be referenced in code.

Note 2. As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose financial information audited or reviewed by the CPA in the most recent period if it is available.

(4).

Information of main customers and suppliers in the last 2 years

Unit: NT$1,000

	2016				2017				2018 up to the end of the first quarter			
Item	Name	Amount	Percentage of net sales (%)	Relationship with the issuer	Name	Amount	Percentage of net sales (%)	Relationship with the issuer	Name	Amount	Net sales ratio from the end of the year to the previous quarter (%)	Relationship with the issuer
	Other	6,398,105	100	No	Other	8,190,258	100	No	Other	2,144,564	100	No
	Net sales	6,398,105	100		Net sales	8,190,258	100		Net sales	2,144,564	100	

Note 1. List the names of customers who accounted for more than 10% of the sales of the Company in the last two years, and the ratio to total sales. However, if name of the customer cannot be disclosed due to contractual obligations or if the transaction party is an individual and not a related party, the entity may be referenced in code.

Note 2. As of the publication date of the Annual Report, the public listed company or OTC-listed company shall disclose financial information audited or reviewed by the CPA in the most recent period if it is available.

3. Annual production value for the last 2 years

Unit: Volume: Metric ton; Value: NT$1,000

Key products \ Year	2016			2017		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Steel Plates	12,000	7,722	121,484	12,000	13,017	248,164
Special Steel Plates	19,800	6,387	123,293	19,800	5,434	117,588
Hot-Rolled (Patterned) Steel Plates	86,400	67,436	1,040,171	86,400	62,777	1,077,055
Stainless Steel Plates	5,500	10,469	594,145	5,500	16,318	1,791,599
Steel Structure Components	9,000	10,019	281,366	9,000	8,454	241,373
Total	132,700	102,033	2,160,459	126,700	106,000	3,475,779

Note 1. The production of special steel plates is low because the speed for cutting alloy steel plates is best kept low.

Note 2. Customized cutting was provided for steel plates and steel structure components are the speed is best kept low for precision.

4. Sales value for the last 2 years

Unit: Volume: Metric ton; Value: NT$1,000

Year	2016				2017			
	Domestic Sales		Exports		Domestic Sales		Exports	
Key products	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Steel Plates	6,325	132,796	500	10,399	13,034	300,475	-	-
Special Steel Plates	4,918	86,721	1,031	19,402	5,159	117,599	731	17,814
Hot-Rolled (Patterned) Steel Plates	66,869	1,116,565	125	3,260	63,497	1,263,404	84	1,388
Stainless Steel Plates	11,521	719,189	70	4,524	18,286	814,475	139	81,011
Steel Structure Components	8,450	262,435	338	11,329	8,119	265,529	307	9,277
Steel Sections (Other)	225,687	3,819,969	9,294	211,516	223,786	4,681,842	25,619	637,444
Total	323,770	6,137,675	11,358	260,430	331,881	7,443,324	26,880	746,934

C. Employee information for the last two years until the public date of this report:

By the end of 2017, the Company had a total of 222 employees, including 22 managers, 21 specialists, 41 assistants, and 138 technicians. The workforce demographics at the end of April 2018 are as follows:

Year		2016	2017	April 30, 2018
Title	Manager	21	22	22
	Specialist	24	21	19
	Assistant	42	41	44
	Technician	119	138	136
	Total	206	222	221
Education background	Ph.D	-	-	-
	Master's degree	4.96	4.96	4.96
	Bachelor's degree	35.14	34.69	36.04
	Senior high school	36.49	38.29	37.84
	Below senior high school	17.57	22.07	20.72
Average age (years)		38.80	38.77	38.88
Average years of service (years)		7.24	7.49	7.58

In 2017, the employee turnover was 11.26% and within the healthy range of turnover between 8% and 12%. Given it is still in the growth stage, the Company hires more than 31 new recruits every year. The new recruits are 13.96% of the total number of employees at the yearend, suggesting that the workforce is effectively kept invigorated.

D. Spending on environmental protection

(1). According to laws and regulations, the Company is required to apply for a permit, submit pollution prevention fees, and set up an exclusively responsible unit/personnel for environmental protection issues: None.

(2). Investment in primary equipment for prevention of pollution, its usage, and possible benefits: None.

(3). Improvement on pollutions to the environment made by the Company in the most recent 3 years to the publication date of the Annual Report:

The Company had conducted careful evaluation on environmental protection and prevention of pollutions when it first established the plant and determined adopt products with the lowest pollutants as its main products. The effects on air quality and production of waste water in the production process and the derived byproducts produced after production are described below:

① The Company's main equipment in various plants consists of cutting machines and the Company does not carry out smelting and painting procedures. The waste material and iron scraps have been sold to contracted iron recycling companies for recycling and smelting and therefore there were no air or water pollutions in the production process.

② The inventory of products consists mainly of steel plates and steel sections that do not produce waste.

③ The sound produced in the process of lifting and unloading steel plates have been inspected by agents from the Northern Office of the Occupational Safety and Health Administration and determined to be in line with the Noise Control Act.

④ The Company actively implements green landscaping for all plants to provide employees with a good work environment. The Company has rigorously carried out environmental protection and pollution prevention tasks in accordance with government regulations.

(4). Losses due to environmental pollution and total fines during the most recent year and up to the annual report publication date: None.

(5). Major capital expenditure on environmental protection anticipated for the next 2 years: None.

E. Employees-employer relations

The Company treats employees as the most important asset. The Company offers challenging and meaningful work and a safe workplace as well as excellent compensation and benefits. In addition, the Company encourages employees to spend time with families, develop hobbies, get involved in the community, and enjoy their lives.

The Company believes in treating active employees, contract and temporary employees, and interns with respect. In addition to never forcing or threatening any unwilling employee into work, the Company listens to its employees and maintains an open channel for communication.

The Company values two-way communication and strives to provide open and transparent communication between managers and employees and between employees. To give attention to employee opinions and sentiment, the Company conducts employer-employee meetings and provides employees with fair and effective communication mechanisms to state their opinions in order to understand employee sentiments and quickly process issues raised by employees for the purpose of promoting harmonious employer-employee relations and achieving prosperity for the Company and employees.

A range of channels available for internal communication in recent years have contributed to workplace harmony. Hence, while the Company has always respected the right of its employees to association, no employees have come forward to organize a union.

The Company has not incurred any loss arising from an employer-employee dispute in 2017 and up to the publication date of the annual report in 2018.

(1). Remuneration

The Company is dedicated to providing its employees above-average benefits and compensation. The Company provides diverse and competitive salary systems as it meets criteria for external competitiveness, internal fairness, and legal requirements. It also upholds the ideal of sharing profits with employees by attracting, retaining, developing, and encouraging outstanding talents of all sectors. As the Company's business performance has been satisfactory in the past 50 years since its establishment, the actual remuneration received by employees has always been higher than our competitors.

Compensation for employees include monthly salaries, quarterly performance bonuses in cash, and annual employee bonuses based on profit margins of the year.

The quarterly cash bonus and annual employee bonus are given to reward employees for their contributions and to inspire dedication. Employees' interest is aligned with shareholders' interest to create an all-win situation for the Company, its shareholders, and its employees. Employee compensation is based on the Company's business results and the industry average. The total amount and allocation are to be proposed by the Remuneration Committee to the board of directors. In particular, employee compensation is distributed promptly after the proposal is approved by the board of directors. The amount of bonus granted to employees is determined by their responsibilities, contributions, and performance.

(2). Employee benefits

The Company assists employees in adopting corporate culture and fulfilling goals for personal development through employee adaption, professional growth, and career development. The Company allows employees to continue to challenge themselves, set records, and grow with the Company in a diverse and innovative environment. Employer-employee relations have therefore been harmonious and the Company has not experienced any employer-employee disputes since its establishment. The Company's performance in employee welfare, labor education and training, occupational safety and sanitation, and labor conditions have repeatedly won recognition. The potential for losses due to employer-employee disputes in the future is extremely low.

a. Convenient services in plants: Employee cafeterias and travel and commute allowances are provided in all plants.
b. Health promotion and management programs: including health promotion activities such as checkups, blood drives, and seminars to raise awareness of self health management.
c. A variety employee benefits: Funds are provided to support sports and hiking events, day trips and family days, and holiday, wedding/funeral, and emergency allowances.

d. A variety child benefits for employees: Scholarships, grants, child benefits and birth allowances are available to employees.

(3). Personal development:

The continuing growth of the Company's and that of its employees are interlinked. Hence, the Company brings together internal and external resources to provide challenging work and a workplace where employees are encouraged to realize their full potential. Job rotation is implemented to help employees explore their limits. The Company has created an environment that facilitates ongoing and diversified learning. The "Employee Training and Education Regulations" in place to help employees grow with the Company by setting objectives, disciplines, and plans.

To cultivate talent and create a conducive work environment, the Company designs talent and organization development programs based on the needs of different departments, nature of individual employees' responsibilities, and performance evaluation results and career development needs. The aim is to help employees improve performance and make a greater contribution to the Company. Meanwhile, a range of learning and development resources (including on-the-job training, course training, work guidance, mentoring, and job rotation) are available. There are also different learning incentives aimed at creating optimal learning conditions and achieving the goal of a better organization and better employees.

Furthermore, the Company provides a series of general knowledge, professional, and management training courses for employees in different positions. Experts are invited from outside the company to teach the courses, and a number of lecturers have been trained to provide in-house training and pass on knowledge and skills crucial to the Company.

The training courses provided by the Company include:

- Orientation: basic training and on-the-job guidance. Managers of new employees and a well established "partner system" also help new employees settle into the company and their work.
- General training: including training for general knowledge required of entire Company or all levels that are conducted in accordance with government regulations or company policies. The subjects include: industrial safety training courses, safety and sanitation training courses, quality related training courses, plant emergency response training courses, and personal performance management courses.
- Professional / occupational training: Technical and professional training required by various functional units such as: equipment and engineering courses, manufacturing process training courses, accounting courses, information technology courses etc.
- Direct employee training: including training for technicians on the assembly line to acquire knowledge, technical capabilities and methods required to obtain a license for operating machinery such as: direct technical skills training courses, technician training courses, training courses for section chiefs of the manufacturing department etc.

- Customized training: development or training programs formulated according to the prevailing condition of the organization and the focus of training.
- Training for managers: The Company plans management development training activities in accordance with the requirements for management capabilities and responsibilities of various management tasks. Contents include: Core courses for junior managers, core courses for middle-level managers, core courses for senior managers, and other elective courses.

In addition to in-house learning resources, the Company offers allowances for employees to attend outside short term courses or credit courses or study for degrees.

The Company organized a total of 54 courses in 2017. The total training hours was 9,884 hours and a total of 190 employees participated in training. The average employee training hours amounted to 52 hours and the total training expenditure was NT$1.31 million.

(4). Employee activities: The Employee Welfare Committee is established for the benefits of employees and it meticulously plans various activities and welfare facilities to create a lively work environment and raise employee morale. The expenditure of the Employee Welfare Committee and the Company totaled NT$6.275 million in 2017 and the funds were used for related employee benefits and activities. The Company organized scholarships for employees' children, arts and culture performances, employee tours, hiking events, and family day events in 2017.

(5). Retirement

The Company has established the retirement program pursuant to the "Labor Standards Act" and the "Labor Pension Act". A sound financial operation ensures employees will receive a steady stream of pension payments, which in turn encourage employees to stay with the Company and make their career plans with a long term perspective.

The balance of the Company's pension reserve fund (as of April 30, 2018) in the Bank of Taiwan (originally at the Central Trust of China and incorporated into the Bank of Taiwan in 2007) was NT$24.05 million. Due to the adoption of the "Pension Fund Accounting Principles" in the No. 18 Statement of Financial Accounting Standards, December 31, 2017 is to be used as the baseline date and the accrued pension liabilities of NT$27.78 million has been appropriated into the pension reserve account in 2017 and the interest distribution from the special account has reached NT$24.058 million.

Since the establishment of the Labor Retirement Reserve Supervisory Committee, up to December 31, 2017 a total of 22 employees have retired and pension funds of NT$38.22 million have been distributed (including 1 retiree and distribution of NT$407,000 in pension in 2017). The new labor retirement system requires an appropriation of 6%-10% (including 4% from the employee) to be deposited in the statuary labor pension institute.

(6). Labor-management agreement status

The Company values two-way communication and strives to provide open and transparent communication between managers and employees and between employees. To give attention to employee opinions and sentiment, the Company conducts employer-employee meetings and provides employees with fair and effective communication mechanisms to state their opinions in order to understand employee sentiments and quickly process issues raised by employees for the purpose of promoting harmonious employer-employee relations and achieving prosperity for the Company and employees.

A range of channels available for internal communication in recent years have contributed to workplace harmony. Hence, while the Company has always respected the right of its employees to association, no employees have come forward to organize a union.

The Company has not incurred any loss arising from an employer-employee dispute in 2017 and up to the publication date of the annual report in 2018.

(7). Disclose the losses suffered due to industrial relation disputes in recent years up to the publication date of this annual report as well as estimations for similar losses in the future and coping measures. If the loss cannot be reasonably estimated, make a statement to that effect: None.

(8). Has there been litigations during the most recent year and up to the publication date of the Annual Report and did employer-employee relations require mediation: None.

F. **Important contracts**: Important supply and seals contracts, technical collaboration contracts, engineering contracts, long-term loan contracts that are currently effective or expiring in the most recent year that may affect investor rights and benefits.

Nature of contract	Contracting parties	Start and end dates of the contract	Content	Restrictions
Long-term loan contract	Mega International Commercial Bank	2017.1~2032.1	Loan of NT$150 million	Provided the land as collateral
Long-term loan contract	Chang Hwa Bank	2016.8~2020.8	Loan of NT$40 million	Unsecured loan
Long-term loan contract	Chang Hwa Bank	2016.7~2019.7	Loan of NT$185.5 million used for the purchase of land in Sin-Ji Industrial Park.	Provided the land as collateral
Syndicated loan agreement	Land Bank of Taiwan	2014.7~2019.7	Syndicated loan of NT$2.5 billion used to cover the cost of land for the 5th Phase project in Guanyin Plant, factories, machinery, equipment, repayment of loans from financial institutions, and funds required for operations.	Provided the land and factories as collateral

VI. Financial Overview

A. Condensed balance sheet and composite income statement for last 5 years

(A) Condensed consolidated balance sheet

Unit: NT$1,000

Item		2013	2014	2015	2016	2017	Financial information for current year up to March 31, 2018 (Note 3)
Year		Financial information for last 5 years (Note 1)					
Current assets		7,997,598	8,239,940	6,239,268	6,566,789	7,145,458	8,354,520
Property, plant and equipment (Note 2)		2,215,073	2,846,204	2,834,422	3,033,067	3,835,473	3,858,976
Intangible assets		-	-	-	-	-	-
Other assets (Note 2)		2,142,579	2,004,924	1,616,561	2,321,300	2,837,307	2,747,326
Total assets		12,355,250	13,091,068	10,690,251	11,921,156	13,818,238	14,960,822
Current liabilities	Pre-distribution	5,365,149	5,493,439	4,996,081	4,715,936	5,836,291	6,231,341
	After distribution	5,642,142	5,772,277	4,996,081	5,267,085	6,448,679	6,843,729
Non-current liabilities		1,488,656	2,121,842	1,533,660	1,632,283	1,503,618	1,405,070
Total liabilities	Pre-distribution	6,853,805	7,615,281	6,529,741	6,348,219	7,339,909	7,636,411
	After distribution	7,130,798	7,894,119	6,529,741	6,899,368	7,952,297	8,248,799
Equity attributable to owners of parent company		5,443,826	5,429,240	4,130,338	5,544,693	6,270,938	7,091,647
Capital		2,769,413	2,788,380	2,756,380	2,991,876	3,061,937	3,061,937
Capital reserve	Pre-distribution	1,030,797	1,049,463	1,045,575	1,016,806	867,686	867,686
	After distribution	1,030,797	1,049,463	1,045,575	771,851	714,589	714,589
Retained earnings	Pre-distribution	1,541,857	1,494,071	810,751	1,555,418	2,312,495	3,257,401
	After distribution	1,264,863	1,215,233	810,751	1,249,224	1,853,204	2,798,110
Other equity		101,759	97,326	(482,368)	(19,407)	28,820	(95,377)
Treasury stock		-	-	-	-	-	-
Non-controlling equity		57,619	46,547	30,172	28,244	207,391	232,764
Total equity	Pre-distribution	5,501,445	5,475,787	4,160,510	5,572,937	6,478,329	7,324,411
	After distribution	5,224,451	5,196,949	4,160,510	5,021,788	5,865,941	6,712,023

Note 1. All years that have not been certified by a CPA shall be indicated.
Note 2. The effective date and value of assets after reappraisal, if any, in the current year shall be disclosed.
Note 3. As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CFA certified or audited financial statements. Financial information of the current year up to March 31, 2018 has been certified by the CPA.
Note 4. Please fill in the numbers after distribution based on the resolutions of the shareholders meetings in the following year.
Note 5. Financial information that has been required by the competent authority to be corrected or recompiled shall be provided with the corrected or recompiled figures and the status and reasons shall be provided.

(B) Condensed individual balance sheet

Unit: NT$1,000

Item	Year	Financial information for last 5 years (Note 1)					Financial information for current year up to March 31, 2018 (Note 3) (Exempted from disclosure)
		2013	2014	2015	2016	2017	
Current assets		7,402,360	7,630,383	5,652,653	5,907,450	6,475,198	
Property, plant and equipment (Note 2)		2,184,919	2,823,380	2,818,446	2,807,392	3,595,147	
Intangible assets		-	-	-	-	-	
Other assets (Note 2)		2,513,146	2,482,505	2,074,519	2,672,835	3,542,102	
Total assets		12,100,425	12,936,268	10,545,618	11,387,677	13,612,447	
Current liabilities	Pre-distribution	5,172,970	5,388,144	4,882,491	4,422,613	5,785,609	
	After distribution	5,449,963	5,666,982	4,882,491	4,973,762	6,397,997	
Non-current liabilities		1,483,629	2,118,884	1,532,789	1,420,371	1,555,900	
Total liabilities	Pre-distribution	6,656,599	7,507,028	6,415,280	5,842,984	7,341,509	
	After distribution	6,933,592	7,785,866	6,415,280	6,394,133	7,953,837	
Equity attributable to owners of parent company		5,443,826	5,429,240	4,130,338	5,544,693	6,270,938	
Capital		2,769,413	2,788,380	2,756,380	2,991,876	3,061,937	
Capital reserve	Pre-distribution	1,030,797	1,049,463	1,045,575	1,016,806	867,686	
	After distribution	1,030,797	1,049,463	1,045,575	771,851	714,589	
Retained earnings	Pre-distribution	1,541,857	1,494,071	810,751	1,555,418	2,312,495	
	After distribution	1,264,864	1,215,233	810,751	1,249,224	1,853,204	
Other equity		101,759	97,326	(482,368)	(19,407)	28,820	
Treasury stock		-	-	-	-	-	
Total equity	Pre-distribution	5,443,826	5,429,240	4,130,338	5,544,693	6,270,938	
	After distribution	5,166,833	5,150,402	4,130,338	4,993,544	5,658,550	

Note 1. All years that have not been certified by a CPA shall be indicated.
Note 2. The effective date and value of assets after reappraisal, if any, in the current year shall be disclosed.
Note 3. As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CFA certified or audited financial statements. According to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the Company is not required to prepare individual financial statements for March 31, 2018.
Note 4. Please fill in the numbers after distribution based on the resolutions of the shareholders meetings in the following year.
Note 5. Financial information that has been required by the competent authority to be corrected or recompiled shall be provided with the corrected or recompiled figures and the status and reasons shall be provided.

(C) Statements of comprehensive income

Unit: NT$1,000, except for EPS in NTD

Item / Year	Financial information for last 5 years (Note 1)					Financial information for current year up to March 31, 2018 (Note 2)
	2013	2014	2015	2016	2017	
Operating revenue	8,623,884	8,653,502	6,449,699	6,411,686	8,351,912	2,361,158
Gross profit	479,286	498,165	(568,373)	916,989	1,113,799	457,092
Operating profit/loss	448,154	484,744	(855,123)	752,100	994,525	327,498
Non-operating income and expenses	(96,352)	(217,251)	433,214	59,180	214,939	672,677
Net income before tax	351,802	267,493	(421,909)	811,280	1,209,464	1,000,175
Current period net income from continuing operations	332,683	222,461	(408,779)	749,784	1,073,532	970,287
Loss from discontinued operations	-	-	-	-	-	-
Current net profit (loss)	332,683	222,461	(408,779)	749,784	1,073,532	970,287
Other comprehensive income (Net income after-tax)	6,642	(6,629)	(582,437)	459,814	45,240	(124,205)
Total comprehensive income for the period	339,325	215,832	(991,216)	1,209,598	1,118,772	846,082
Profit attributable to owners of the parent	331,162	231,451	(401,876)	747,774	1,066,226	944,906
Net profit attributable to non-controlling equity	1,521	(8,990)	(6,903)	2,010	7,306	25,381
Comprehensive income (loss) attributable to owners of parent company	337,763	224,774	(984,176)	1,207,628	1,111,498	820,709
Comprehensive income (loss) attributable to non-controlling interests	1,562	(8,942)	(7,040)	1,970	7,274	25,373
Earnings per share	1.20	0.83	(1.45)	2.67	3.49	3.09

Note 1. All years that have not been certified by a CPA shall be indicated.

Note 2. As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CFA certified or audited financial statements. Financial information of the current year up to March 31, 2018 has been certified by the CPA.

Note 3. The losses of discontinued operations shall be represented by the net value after deducting income tax.

Note 4. Financial information that has been required by the competent authority to be corrected or recompiled shall be provided with the corrected or recompiled figures and the status and reasons shall be provided.

(D) Individual Comprehensive Income Statement

Unit: NT$1,000, except for EPS in NTD

Item \ Year	Financial information for last 5 years (Note 1)					Financial information for current year up to March 31, 2018 (Note 2) (Exempted from disclosure)
	2013	2014	2015	2016	2017	
Operating revenue	8,408,375	8,384,276	6,373,639	6,262,775	8,167,783	
Gross profit	403,328	487,796	(551,955)	898,030	1,033,280	
Operating profit/loss	378,361	501,277	(824,579)	740,452	863,492	
Non-operating income and expenses	(23,805)	(232,470)	408,781	68,238	336,465	
Net income before tax	354,556	268,807	(415,798)	808,690	1,199,957	
Current period net income from continuing operations	331,162	231,451	(401,876)	747,774	1,066,226	
Loss from discontinued operations	-	-	-	-	-	
Current net profit (loss)	331,162	231,451	(401,876)	747,774	1,066,226	
Other comprehensive income (Net income after-tax)	6,601	(6,677)	(582,300)	459,854	45,272	
Total comprehensive income for the period	337,763	224,774	(984,176)	1,207,628	1,111,498	
Earnings per share	1.20	0.83	(1.45)	2.67	3.49	

Note 1. All years that have not been certified by a CPA shall be indicated.

Note 2. As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CFA certified or audited financial statements. According to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the Company is not required to prepare individual financial statements for March 31, 2018.

Note 3. The losses of discontinued operations shall be represented by the net value after deducting income tax.

Note 4. Financial information that has been required by the competent authority to be corrected or recompiled shall be provided with the corrected or recompiled figures and the status and reasons shall be provided.

(E) Names of the certification accountants and their audit opinions for the last 5 years

Year	CPA Name	Opinions for the Audit Report
2017	Chao-Ling Chen, Chiang-Pao Liu	Standard unqualified opinion
2016	Chao-Ling Chen, Chiang-Pao Liu	Standard unqualified opinion
2015	Chao-Ling Chen, Chiang-Pao Liu	Standard unqualified opinion
2014	Chao-Ling Chen, Chiang-Pao Liu (Note 1)	Standard unqualified opinion
2013	Yi-Lung Chou, Chao-Ling Chen	Modified unqualified opinion

Note 1. Reason for change of CPAs:

Hsin Kuang Steel Co., Ltd. originally appointed CPAs Yi-Lung Chou and Chao-Ling Chen of Deloitte for the audit of financial reports. Due to internal structural adjustments of Deloitte, the financial reports starting in the fourth quarter of 2014 have been audited by CPAs Chao-Ling Chen and Chiang-Pao Liu.

B. Financial analysis for last five years

(A) Consolidated financial analysis

Analysis item (Note 3) \ Year (Note 1)		Financial analysis for last five years					Current year up to March 31, 2018 (Note 2)
		2013	2014	2015	2016	2017	
Financial structure (%)	Liability to assets ratio	55.47	58.17	61.08	53.25	53.12	51.04
	Ratio of long-term capital to real estate properties, plants and equipment	315.57	269.33	202.70	237.56	208.11	243.43
Solvency (%)	Current ratio	149.07	150.46	125.39	139.25	122.43	134.07
	Quick ratio	98.27	85.10	79.11	90.32	73.75	88.75
	Interest coverage ratio	4.33	3.23	-2.87	9.62	11.10	33.90
Operation performance	Receivable turnover (times)	3.14	3.14	2.66	2.89	3.65	3.91
	Average collection period	116.00	116.00	137.00	126.00	100.00	93.35
	Inventory turnover (times)	2.65	2.63	2.42	2.41	2.88	2.76
	Payables turnover (times)	19.31	17.81	25.66	18.32	15.67	17.12
	Average days of sale	137.66	138.66	151.00	151.00	127.00	132.25
	Property, plant and equipment turnover ratio (times)	3.89	3.07	2.30	2.11	2.18	2.63
	Total assets turnover (times)	0.70	0.66	0.6	0.54	0.60	0.63
Profitability	Return on assets (%)	3.40	2.53	-2.70	7.37	9.06	27.56
	Return on equity (%)	6.19	4.05	-8.48	15.41	17.82	56.24
	Pre-tax profit to paid-in capital ratio (%)	12.70	9.59	-15.31	27.12	39.50	130.66
	Net profit ratio (%)	3.86	2.57	-6.34	11.69	12.85	164.37
	Earnings per share (NT$)	1.20	0.83	-1.45	2.67	3.49	3.09
Cash flow	Cash flow ratio (%)	21.87	0.59	31.37	12.76	8.89	0.00
	Cash flow adequacy ratio (%)	68.13	51.56	96.40	79.86	68.52	49.54
	Cash reinvestment ratio (%)	13.70	0.00	25.19	5.55	0.00	0.00
Leverage	Operating leverage	1.49	1.54	0.71	1.40	1.34	1.44
	Financial leverage	1.31	1.33	0.89	1.14	1.13	1.09

Please explain reasons for changes in financial ratios in the last two years: (Analysis can be omitted for the change is less than 20%)

1. Higher receivable turnover and shorter average collection period: The changes are attributed mainly to rising steel prices and the hard work of our employees in 2017. The operating revenue was up from the previous year. In addition, despite a higher revenue, the employees worked harder to provide better services, and the accounts receivable recovery rate rose as a result. Therefore, the increase in average accounts receivable was not as high as the increase in revenue.
2. Higher inventory turnover: The change is attributed mainly to sales growth in the current year and the rising cost of sales.
3. Higher consolidated return on assets, consolidated pre-tax profit to paid-in capital ratio, and earnings per share: The increases are attributed mainly to a higher net profit compared to the previous year.
4. Lower cash flow ratio, cash flow adequacy ratio, and cash reinvestment ratio: The decreases are attributed mainly to large capital expenditures in the current year and the net cash inflow generated by business activities being smaller than the net cash outflow in the form of capital expenditures.

(B) Individual financial analysis

Analysis item (Note 3)	Year (Note 1)	2013	2014	2015	2016	2017	Current year up to March 31, 2018 (Exempted from disclosure)
		Financial analysis for last five years					
Financial structure (%)	Liability to assets ratio	55.01	58.03	60.83	51.31	53.93	
	Ratio of long-term capital to real estate properties, plants and equipment	317.05	269.75	202.38	248.10	217.71	
Solvency (%)	Current ratio	143.10	142.08	116.29	133.57	111.92	
	Quick ratio	93.30	76.92	70.10	83.02	63.11	
	Interest coverage ratio	4.44	3.29	-2.88	9.95	12.29	
Operation performance	Receivable turnover (times)	3.09	3.03	2.63	2.88	3.63	
	Average collection period	117.97	120.42	139.00	127.00	101.00	
	Inventory turnover (times)	2.74	2.63	2.44	2.42	2.89	
	Payables turnover (times)	19.89	18.41	26.78	17.49	15.17	
	Average days of sale	133.43	138.70	150.00	151.00	126.00	
	Property, plant and equipment turnover ratio (times)	3.85	3.00	2.28	2.23	2.27	
	Total assets turnover (times)	0.69	0.65	0.60	0.55	0.60	
Profitability	Return on assets (%)	3.44	2.63	-2.69	7.50	9.19	
	Return on equity (%)	6.23	4.26	-8.41	15.46	18.05	
	Pre-tax profit to paid-in capital ratio (%)	12.80	9.64	-15.08	27.03	26.41	
	Net profit ratio (%)	3.94	2.76	-6.31	11.94	13.05	
	Earnings per share (NT$)	1.20	0.83	-1.45	2.67	3.49	
Cash flow	Cash flow ratio (%)	21.48	-	32.07	15.08	8.55	
	Cash flow adequacy ratio (%)	44.10	55.72	102.94	82.65	66.21	
	Cash reinvestment ratio (%)	13.06	-	25.27	6.59	0.00	
Leverage	Operating leverage	1.51	1.48	0.73	1.38	1.38	
	Financial leverage	1.37	1.31	0.89	1.14	1.13	

Please explain reasons for changes in financial ratios in the last two years: (Analysis can be omitted for the change is less than 20%)

1. Higher quick ratio in the current period: The change is attributed mainly to the rising cost of inventory and a larger stock in the current year, which led to a higher inventory to current assets ratio.
2. Higher consolidated interest protection multiples: The change is attributed mainly to higher profitability in the current year compared to the previous year.
3. Higher receivable turnover and shorter average collection period: The changes are attributed mainly to rising steel prices and the hard work of our employees in 2017. The operating revenue was up from the previous year. In addition, despite a higher revenue, the employees worked harder to provide better services, and the accounts receivable recovery rate rose as a result. Therefore, the increase in average accounts receivable was not as high as the increase in revenue.
4. Higher consolidated return on assets, consolidated pre-tax profit to paid-in capital ratio, and earnings per share: The increases are attributed mainly to a higher net profit compared to the previous year.
5. Lower cash flow ratio, cash flow adequacy ratio, and cash reinvestment ratio: The decreases are attributed mainly to large capital expenditures in the current year and the net cash inflow generated by business activities being smaller than the net cash outflow in the form of capital expenditures.

Note 1. Years that have not been certified by a CPA shall be indicated.

Note 2. As of the publication date of the Annual Report, companies that are TWSE-listed have stocks traded at securities dealers shall be included in the analysis if they have produced CFA certified or audited financial statements. Financial information of the current year up to March 31, 2018 has been certified by the CPA.

Note 3. The calculation formula for the items of analysis is stated below:

1. Financial structure
   (1) Liability to assets ratio = total liabilities / total assets.
   (2) Ratio of long-term capital to real estate properties, plants and equipment = (total equity + non-current liabilities) / net for real estate, plant and equipment.
2. Solvency
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets - inventories - prepaid expenses) / current liabilities.
   (3) Interest coverage ratio = earnings before interest expense and net income / interest expense.
3. Operation performance
   (1) Receivables (including accounts receivable arising from operation notes receivable) turnover ratio = net sales / average receivables (including accounts receivable arising from operation notes receivable) balances.
   (2) Average collection period = 365 / receivable turnover.

(3) Inventory turnover = cost of goods sold / average inventory.
(4) Payable (including accounts payable arising from operation notes payable) turnover ratio = cost of goods sold / average payables (including accounts payable arising from operation notes payable) balances.
(5) Average days of sales = 365 / inventory turnover.
(6) Property, plant and equipment turnover ratio = net sales / average net for real estate, plant and equipment.
(7) Total assets turnover ratio = net sales / average total assets.

4. Profitability
(1) Return on assets = (profit and loss after tax + interest expenses × (1 - tax rate)) / average total assets.
(2) Return on equity = profit and loss after tax / average total equity.
(3) Net profit ratio = profit and loss after tax / net sales.
(4) Earnings per share = (net income (loss) attributable to owners of parent company - dividends on preferred shares) / weighted average number of issued shares. (Note 4)

5. Cash flow
(1) Cash flow ratio = net cash flow from operating activities / current liabilities.
(2) Net cash flow adequacy ratio = net cash flow from operating activities for the last 5 years / most recent 5 years (capital expenditure + inventory + cash dividend).
(3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividend) / (gross profit for real estate, plant and equipment + long-term investments + other non-current assets + working capital). (Note 5)

6. Leverage:
(1) Operating leverage = (net operating income - variable operating costs and expenses) / operating profit (Note 6).
(2) Financial leverage = operating profit / (operating income - interest expenses).

Note 4. Special attention shall be paid to the following items when formulae mentioned above are used to calculate the earnings per share:
1. The calculations shall be based on the average number of the weighted common shares rather than shares issued at the end of the year.
2. The circulation period shall be considered for cash capital increase or treasury stock traders when calculating the weighted average number of shares.
3. When calculating annual or semi-annual earnings per share for those with capitalization of retained earnings or capital reserves, capital ratio shall be adjusted retrospectively and the replenishment period issues need not be considered.
4. If the preferred shares are non-convertible cumulative preferred shares, their annual dividends (whether distributed or not) shall be deducted from net income, or the net loss shall be increased. If the preferred shares are not cumulative in nature, the preferred stock dividends shall be deducted from the net income under after-tax net profit conditions. If it is a loss, no adjustment is needed.

Note 5. Special attention shall be paid to the following items during cash flow analysis measurements:
1. Net cash flow from operating activities shall refer to the net cash inflow from operating activities listed in the cash flow statement.
2. Capital expenditure shall refer to the annual capital investment cash outflow.
3. If the inventory increase during the closing is greater than that during the opening and the inventory decreased at the end of the year, it should be calculated as zero.
4. Cash dividends include common stock and preferred stock cash dividends.
5. Gross profit for real estate, plant and equipment shall refer to the total amount for real estate, plant and equipment before accumulated depreciation is deducted.

Note 6. The issuer shall divide the various operating costs and expenses as fixed or changeable based on their natures. If such costs are subject to estimates or subjective judgments, ensure that the methods of deriving those costs are rational and consistent.

Note 7. Paid-in capital ratios before the opening of a foreign company should be changed to net worth ratio calculation instead.

C. Audit Committee's Audit Report for Current Year

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
Winston Won

March 13, 2018

D. If the Company and its affiliated companies had instances of financial difficulties from the recent year to the publication date of this annual report, the effects of the financial difficulties must be listed in detail:

The Company and affiliates did not encounter financial difficulties as of April 30, 2018.

E. Individual Financial Statements and Audit Reports: Please refer to P.92to P.171.

F. Consolidated Financial Statements of Parent Company and Subsidiaries Certified by CPA: Please refer to P.172to P.258.

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:

<u>Estimated Impairment of Trade Receivables</u>

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)

	2017		2016	
ASSETS	**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)	(7,134,503)	(87)	(5,364,745)	(86)
GROSS PROFIT	1,033,280	13	898,030	14
OPERATING EXPENSES (Notes 4 and 23)				
Selling and marketing expenses	(183,472)	(2)	(138,688)	(2)
General and administrative expenses	(145,392)	(2)	(88,534)	(1)
Total operating expenses	(328,864)	(4)	(227,222)	(3)
OTHER OPERATING INCOME AND EXPENSES (Note 23)	159,076	2	69,644	1
PROFIT FROM OPERATIONS	863,492	11	740,452	12
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	117,648	1	106,450	2
Total non-operating income and expenses	336,465	4	68,238	1
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	1,199,957	15	808,690	13
INCOME TAX EXPENSE (Notes 4 and 24)	(133,731)	(2)	(60,916)	(1)
NET PROFIT FOR THE YEAR	1,066,226	13	747,774	12
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	(2,955)	-	(3,107)	-

(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)

	2017		2016	
	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	58,600	1	471,450	7
	48,227	1	462,961	7
Other comprehensive income for the year, net of income tax	45,272	1	459,854	7
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,111,498	14	$ 1,207,628	19
EARNINGS PER SHARE (Note 25)				
From continuing operations				
Basic	$ 3.49		$ 2.67	
Diluted	$ 3.30		$ 2.62	

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			Retained Earnings			Other Equity		
	Number of Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for-sale Financial Assets	Total Equity
BALANCE AT JANUARY 1, 2016	275,638	$ 2,756,380	$ 1,045,575	$ 579,610	$ -	$ 231,141	$ 17,523	$ (499,891)	$ 4,130,338
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	-	-	-	-	-	(3,107)	(8,489)	471,450	459,854
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	744,667	(8,489)	471,450	1,207,628
Issuance of ordinary shares under employee share options	988	9,880	4,347	-	-	-	-	-	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
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	-	-	-	-	-	(2,955)	(10,373)	58,600	45,272
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	1,063,271	(10,373)	58,600	1,111,498
Convertible bonds converted to ordinary shares	7,006	70,061	40,946	-	-	-	-	-	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

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	5,220	161,903
Net cash used in investing activities	(1,227,013)	(191,666)
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	(103,421)	(73,117)
Net cash generated from (used in) financing activities	927,722	(931,728)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	195,205	(398,859)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	512,490	911,349
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 707,695	$ 512,490

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

HSIN KUANG STEEL COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Hsin Kuang Steel Company Limited (the "Company") was incorporated in the Republic of China ("ROC") in January 1967. The original paid-in-capital was NT$200 thousands, and then ordinary shares were issued for promoting business expansion and a sound financial structure. The Company mainly engages in the cutting, stamping and sale of various steel products, including steel coils, steel plates, stainless steel, alloy steel and special steel.

The Company's share was approved to be listed on the Taipei Exchange in April 1997 and then was approved to transfer to the Taiwan Stock Exchange in August 2000. The Company's shares have been listed on the Taiwan Stock Exchange since September 2000 under the approval of the Financial Supervisory Commission of the ROC.

These financial statements are presented in the Company's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's board of directors on March 13, 2018.

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

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

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

   1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

      The amendments clarify that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is the fair value less costs of disposal, the Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2/Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique.

2) IFRIC 21 “Levies”

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Company accrues the related liability when the transaction or activity that triggers the payment of the levy occurs. If the obligating event occurs over a period of time (such as the generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

3) Annual Improvements to IFRSs 2010-2012 Cycle

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

The amended IFRS 2 changes the definitions of “vesting condition” and “market condition” and adds definitions for “performance condition” and “service condition”. The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Company or another entity in the same group or the market price of the equity instruments of the Company or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Company as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Company but also of other entities outside the Company. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions are accounted for differently, and the aforementioned amendment should be applied prospectively to those share-based payments granted on or after January 1, 2017.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment should be applied prospectively to business combinations with acquisition dates on or after January 1, 2017. Refer to Note 27 for information on the business combinations that occurred in 2017.

The amended IFRS 8 requires the Company to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”. The amendment also clarifies that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segments’ assets are regularly provided to the chief operating decision-maker. The judgments made in applying the aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rates will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 “Related Party Disclosures” was amended to clarify that a management entity providing key management personnel services to the Company is a related party of the Company. Consequently, the Company is required to disclose as related party transactions the amounts incurred for the services paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

4) Annual Improvements to IFRSs 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangements themselves. The amendment should be applied prospectively starting from January 1, 2017.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of and accounted for in accordance with IAS 39 or IFRS 9, even those contracts which do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and the application of both standards may be required to determine whether an investment property acquired is an acquisition of an asset or a business combination. The amendment will be applied prospectively to acquisitions of investment property on or after January 1, 2017.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and the application of both standards may be required to determine whether the investment property acquired is an acquisition of an asset or a business combination. The amendment should be applied prospectively to acquisitions of investment property on or after January 1, 2017.

5) Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”

The amendment requires that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Accordingly, a joint operator that is an acquirer of such an interest has to:

- Measure most identifiable assets and liabilities at fair value;
- Expense acquisition-related costs (other than debt or equity issuance costs);
- Recognize deferred taxes;
- Recognize any goodwill or bargain purchase gain;
- Perform impairment tests for the cash generating units to which goodwill has been allocated; and
- Disclose required information relevant for business combinations.

The amendments also apply to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation on its formation by one of the parties that participates in the joint operation.

The amendments do not apply to the acquisition of an interest in a joint operation when the parties sharing control are under common control before and after the acquisition.

The amendments should be applied to interests in joint operations acquired on or after January 1, 2017.

6) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

An entity should use the appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of property, plant and equipment and intangible assets are expected to be consumed by the entity.

The amended IAS 16 "Property, Plant and Equipment" stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 "Intangible Assets" clarifies that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances when:

a) The intangible asset is expressed as a measure of revenue (for example, when there is a contract that specifies the entity's use of the intangible asset will expire upon the achievement of a revenue threshold); or

b) It can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

7) Annual Improvements to IFRSs 2012-2014 Cycle

Several standards including IFRS 5 "Non-current assets held for sale and discontinued operations", IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IFRS 5 was amended to clarify that reclassification between non-current assets (or disposal groups) "held for sale" and non-current assets "held for distribution to owners" does not constitute a change to a plan of sale or distribution. Therefore, the previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for "held for distribution to owners" and do not meet the criteria for "held for sale" should be treated in the same way as assets that cease to be classified as held for sale. The amendment should be applied prospectively to transactions that occur on or after January 1, 2017.

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

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

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

The amendments also require additional disclosure if there is a significant difference between the actual operation conditions after a business combination and the expected benefits at the acquisition date.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) Annual Improvements to IFRSs 2014-2016 Cycle

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

The amendment to IFRS 12 clarifies that when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale in accordance with IFRS 5. The Company will apply the aforementioned amendment retrospectively.

2) Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The amendments require that market conditions and non-vesting conditions should be taken into account and vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of a cash-settled share-based payment at the measurement date. Instead, they should be taken into account by adjusting the number of awards included in the measurement of the liability arising from any cash-settled share-based payment transaction.

3) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

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

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

a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

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

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

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

Emerging market shares classified as available-for-sale will be classified as at fair value through profit or loss. Listed shares and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

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

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

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

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss - current	$ -	$ 5,485	$ 5,485
Financial assets at fair value through other comprehensive income - current	-	81,767	81,767
Financial assets at fair value through other comprehensive income - non-current	-	1,845,284	1,845,284
Available-for-sale financial assets - current	81,767	(81,767)	-
Available-for-sale financial assets - non-current	1,850,769	(1,850,769)	-
Total effect on assets	$ 1,932,536	$ -	$ 1,932,536

4) IFRS 15 “Revenue from Contracts with Customers” and related amendments

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

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

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Company satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Company regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

If the customer has retained a portion of payment to the Company in accordance with the terms of the contract in order to protect the customer from the contractor's possible failure to adequately complete its obligations under the contract, such payment arrangement does not include a significant financing component and is recognized as a contract asset before the contractual obligation is completed under IFRS 15. Currently, any retention receivable under a construction contract is recognized as a receivable and is discounted to reflect the time value of money in accordance with IAS 39.

Incremental costs of obtaining a contract will be recognized as an asset to the extent that the Company expects to recover those costs. Such an asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Currently, related costs are recognized as expenses immediately.

IFRS 15 and the related amendments require that when another party is involved in providing goods or services to a customer, the Company is a principal if it controls the specified good or service before that good or service is transferred to a customer. Since a specified good or service is a distinct good or service, the Company determines whether it is a principal or an agent for each specified good or service.

The Company is a principal if it obtains control of any one of the following:

a) The good or another asset that it then transfers to the customer.

b) The right to a service to be performed by another party which gives the Company the ability to direct that party to provide the service to the customer on its behalf.

c) A good or service from another party that it then combines with other goods or services in providing a specified good or service to the customer.

Indicators to support the Company's assessment of whether it controls a specified good or service include, but are not limited to, the following:

a) The Company is primarily responsible for fulfilling the promise to provide the specified good or service.

b) The Company has inventory risk before or after the specified good or service is transferred to the customer.

c) The Company has discretion in establishing the price of the specified good or service.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability.

If the contract is non-cancellable, the Company will recognize a receivable and a contract liability when it has an unconditional right to considerations in accordance with IFRS 15. Currently, considerations are recognized as deferred revenue when received.

The Company elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

In addition, the Company will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The anticipated impact on assets and liabilities when retrospectively applying IFRS 15 as of January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2018**
Notes receivable	$ 1,016,708	$ 24,589	$ 1,041,297
Trade receivables	1,253,091	9,024	1,262,115
Total effect on assets	$ 2,269.799	$ 33,613	$ 2,303,412
Contract liabilities - current	$ -	$ 118,632	$ 118,632
Other current liabilities	104,325	(85,019)	19,306
Total effect on liabilities	$ 104,325	$ 33,613	$ 137,938

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

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

In addition, in determining whether to recognize a deferred tax asset, the Company should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Company’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the Company currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendments will be applied retrospectively in 2018.

6) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Company should transfer to, or from, investment property when, and only when, a property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that evidence of a change in use is not limited to those illustrated in IAS 40.

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

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

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

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

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

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

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulate that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when a company loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when a company sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated. Also, when a company loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the company's share of the gain or loss is eliminated.

2) IFRS 16 "Leases"

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

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

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

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

3) IFRIC 23 "Uncertainty Over Income Tax Treatments"

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

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

4) Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"

The amendments clarified that IFRS 9 shall be applied to account for other financial instruments in an associate or joint venture to which the equity method is not applied. These included long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

When the amendments become effective, the Company shall apply the amendments retrospectively. However, the Company may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

5) Amendments to IFRS 9 "Prepayment Features with Negative Compensation"

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explained that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

When the amendments become effective, the Company shall apply the amendments retrospectively. However, the Company may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

6) Annual Improvements to IFRSs 2015-2017 Cycle

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

7) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing these parent company only financial statements, the Company used equity method to account for its investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, associates and joint ventures and the related equity items, as appropriate, in these parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue; and

3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

e. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

1) Foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

2) Transactions entered into in order to hedge certain foreign currency risks; and

3) Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting financial statements, the functional currencies of the Company and the group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is included in the calculation of equity transactions but is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

f. Inventories

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

g. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity (including a structured entity) that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested company. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

h. Investment in associates and joint ventures

An associate is an entity over which the Company has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Company uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and joint venture. The Company also recognizes the changes in the Company's share of the equity of associates and joint ventures.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint venture. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates and joint ventures accounted for using the equity method. If the Company's ownership interest is reduced due to its additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint venture), the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

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

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Company's financial statements only to the extent that interests in the associate and the joint venture are not related to the Company.

i. Property, plant and equipment

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

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

k. Impairment of tangible assets

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

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

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

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 30.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

iii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, other receivables - loan receivables, and other financial assets) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

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

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

For a financial asset carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For any available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

Except the following situation, all financial liabilities are carried at amortized cost using the effective interest method:

- Financial liabilities at fair value through profit or loss

  Financial liabilities are classified as at fair value through profit or loss when such financial liabilities are either held for trading or is designated as at fair value through profit or loss.

  Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividends paid on the financial liability. Fair value is determined in the manner described in Note 30.

b) Derecognition of financial liabilities

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

4) Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

5) Derivative financial instruments

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

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

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the contracts are not measured at fair value through profit or loss.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

- Contingent liabilities acquired in investments in associates and joint ventures

  Contingent liabilities acquired in investments in associates and joint ventures are initially measured at fair value at the acquisition date, when the fair value of the present obligation resulting from past events can be reliably measured. At the end of subsequent reporting periods, such contingent liabilities are measured at their amortized amount. However, if the present obligation amount is assessed to have a probable outflow of resources, the contingent liabilities shall be measured at the higher of the present obligation amount and the amortized amount.

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

   Revenue from the sale of goods is recognized when all the following conditions are satisfied:

   - The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

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

   - The amount of revenue can be measured reliably;

   - It is probable that the economic benefits associated with the transaction will flow to the Company; and

   - The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of material ownership.

2) Rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) Dividend and interest income

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

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

o. Leasing

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

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

2) The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

p. Borrowing costs

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

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

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

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Employee share options

Employee share options granted to employees and others providing similar services.

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

s. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carry forward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Estimated impairment of trade receivables

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

As of December 31, 2017 and 2016, the amount of notes receivable, trade receivables and overdue receivables was NT$2,272,799 thousand and NT$2,269,098 thousand, respectively. (After deducting the allowance for impairment loss, the amount was NT$54,133 thousand and NT$19,916 thousand, respectively.)

b. Write-down of inventories

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	**2016**
Cash on hand	$ 680	$ 493
Checking accounts and demand deposits	707,015	511,997
	$ 707,695	$ 512,490

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

	December 31	
	2017	**2016**
Bank balance	0.001%-0.28%	0.05%-0.10%

As of December 31, 2017 and 2016, the time deposits with an original maturity of more than 3 months were NT$87,706 thousand and NT$65,576 thousand, respectively, which were classified as other current financial assets. Refer to Note 11 for further information.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	**2016**
Financial assets - current		
Financial assets held for trading		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts*	$ -	$ 8,609
Non-derivative financial assets		
Domestic quoted shares	483,174	511,276
Mutual funds	20,165	2,875
	$ 503,339	$ 522,760
Financial liabilities - current		
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts*	$ 19,916	$ -
Convertible options (Note 17)	18,096	91
	$ 38,012	$ 91

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

	Currency	Maturity Date	Notional Amounts (In Thousands)
December 31, 2017			
Buy	NTD/USD	2018.01- 2018.11	NTD1,931,361/USD64,703
December 31, 2016			
Buy	NTD/USD	2017.01-2017.10	NTD856,017/USD26,937
Sell	USD/NTD	2017.01	NTD32,883/USD1,033

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Current		
Domestic listed shares and emerging market shares	$ 81,767	$ 330,402
Non-current		
Domestic listed shares and emerging market shares	$ 1,408,272	$ 1,402,581
Unlisted shares - ROC	94,275	60,823
Unlisted shares - other countries	348,222	348,223
	$ 1,850,769	$ 1,811,627

Refer to Note 32 for information relating to available-for-sale financial assets pledged as security.

9. NOTES RECEIVABLE, TRADE RECEIVABLES, OTHER RECEIVABLES AND OVERDUE RECEIVABLES

	December 31	
	2017	2016
Notes receivable		
Notes receivable - operating	$ 1,018,200	$ 973,962
Less: Allowance for impairment loss	(1,492)	(1,341)
	$ 1,016,708	$ 972,621

(Continued)

	December 31	
	2017	**2016**
Trade receivables		
Trade receivables	$ 1,256,832	$ 1,257,154
Less: Allowance for impairment loss	(3,741)	(3,176)
	$ 1,253,091	$ 1,253,978
Other receivables		
Loan receivables	$ -	$ 13,000
Others	501	651
	$ 501	$ 13,651
Overdue receivables		
Overdue receivables	$ 51,900	$ 57,898
Less: Allowance for impairment loss	(48,900)	(15,399)
	$ 3,000	$ 42,499

(Concluded)

a. Notes receivable and trade receivables

The average credit period of sales of goods was 90 days. No interest was charged on trade receivables. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Company recognized an allowance for impairment loss of 100% against all receivables over 365 days because historical experience was that receivables that are past due beyond 365 days are not recoverable. An allowance for impairment loss was recognized against trade receivables between 90 days and 365 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial positions.

For the trade receivables balances that were past due at the end of the reporting period were NT$104,212 thousand and NT$59,663 thousand on December 31, 2017 and 2016, respectively, which are disclosed in the aging analysis below. The Company did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts. The Company did not hold any collateral or other credit enhancements for these balances. In addition, the Company does not have the legal right to off-set the trade receivables with trade payables from the same counterparty.

The aging of trade receivables that were past due but not impaired was as follows:

	December 31	
	2017	**2016**
Up to 90 days	$ -	$ -
91-365 days	94,858	44,462
Over 365 days	9,354	15,201
	$ 104,212	$ 59,663

The above aging schedule was based on the number of past due days from the invoice date.

The movements of the allowance for doubtful trade receivables were as follows:

	For the Year Ended December 31	
	2017	**2016**
Beginning of the year	$ 4,517	$ 7,147
Add: Impairment losses recognized on receivables	1,488	648
Less: Impairment losses reversed	(772)	(3,278)
End of the year	$ 5,233	$ 4,517

b. Other receivables - loan receivables

The maturity date of loans to related parties were as follows:

	December 31	
Maturity Date	**2017**	**2016**
December 2017	$ -	$ 13,000

The principal was expected to be received in full on the maturity date and with no interest expense.

c. Overdue receivables

For the overdue receivable balances that were past due at the end of the reporting period were NT$3,000 thousand and NT$42,499 thousand on December 31, 2017 and 2016, respectively, which are disclosed in the aging analysis below. The Company did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts. The Company considered the overdue receivables to still be collectable and held collateral for these balances to enhance the collectability. In addition, the Company does not have the legal right to off-set the overdue receivables with trade payables from the same counterparty.

The aging of overdue receivables that were past due but not impaired was as follows:

	December 31	
	2017	**2016**
Up to 90 days	$ -	$ -
90-365 days	-	7,168
Over 365 days	3,000	35,331
	$ 3,000	$ 42,499

The above aging schedule was based on the number of past due days from the invoice date.

The movements of the allowance for doubtful overdue receivables were as follows:

	For the Year Ended December 31	
	2017	2016
Beginning of the year	$ 15,399	$ 30,179
Add: Impairment losses recognized on receivables	35,486	12,334
Less: Impairment losses reversed	(1,985)	(911)
Less: Amounts written off during the year as uncollectable	-	(24,705)
Less: Amounts recovered from the prior year write-offs	-	(1,498)
End of the year	$ 48,900	$ 15,399

The Company recognized an impairment loss on overdue receivables amounting to NT$48,900 thousand and NT$15,399 thousand as of December 31, 2017 and 2016, respectively. These amounts mainly related to customers that the Company were pursuing legal claims against. The Company carried out a review of the recoverable amount of those overdue receivables and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss. The Company held chattel pledged as collateral over these balances.

The carrying amount of notes receivable pledged as collateral for borrowings is disclosed in Note 32.

10. INVENTORIES

	December 31	
	2017	2016
Finished goods	$ 372,923	$ 358,469
Raw materials	2,370,365	1,837,543
Raw materials in transit	-	1,067
	$ 2,743,288	$ 2,197,079

The allowance for inventory devaluation for the years ended December 31, 2017 and 2016 was NT$2,426 thousand and NT$440 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was NT$7,108,450 thousand and NT$5,364,745 thousand, respectively. The cost of goods sold included an inventory write-down of NT$1,986 thousand and a reversal of inventory write-downs of NT$302,350 thousand. Previous write-downs were reversed as a result of increased selling prices in steel markets.

11. OTHER CURRENT FINANCIAL ASSETS

	December 31	
	2017	2016
Time deposits with original maturities of more than 3 months	$ 87,706	$ 65,576

a. The market interest rates of the time deposits with an original maturity of more than 3 months were 0.07%-0.77% and 0.2%-1% per annum, respectively, for the years ended December 31, 2017 and 2016.

b. Refer to Note 32 for information relating to other current financial assets pledged as security.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	2016
Investments in subsidiaries	$ 828,471	$ 472,598
Investments in associates	29,800	12,241
Investments in joint ventures	492,987	27,484
	$ 1,351,258	$ 512,323

a. Investments in subsidiaries

	December 31	
	2017	2016
Hsin Ching International Co., Ltd.* (Note 27)	$ 259,125	$ -
Hsin Yuan Investment Co., Ltd.	254,491	182,820
Sinpao Investment Co., Ltd.	144,434	163,849
Hsin Ho Fa Metal Co., Ltd.	169,333	115,869
Hsin Kuang Alga Engineering Co., Ltd.	1,088	10,060
	$ 828,471	$ 472,598

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Subsidiary	2017	2016
Hsin Ching International Co., Ltd.* (Note 27)	60.00%	50.00%
Hsin Yuan Investment Co., Ltd.	100.00%	100.00%
Sinpao Investment Co., Ltd.	99.82%	99.82%
Hsin Ho Fa Metal Co., Ltd. (Note 28)	83.37%	83.37%
Hsin Kuang Alga Engineering Co., Ltd.	68.16%	68.16%

* The Company acquired 10% of the outstanding shares of Hsin Ching International Co., Ltd. in February 2017 with controlling interest.

b. Investments in associates

	December 31	
	2017	2016
Associates that are not individually material	$ 29,800	$ 12,241

		Proportion of Ownership and Voting Rights	
		December 31	
Name of Associate	Nature of Activities	2017	2016
Hsin Wei Solar Co., Ltd.	Non-metallic power generation	40.00%	40.00%
E-Tech Steel Co., Ltd.	Steel structure	29.96%	29.96%

Aggregate information of associates that are not individually material is as follows:

	December 31	
	2017	2016
The Company's share of:		
Profit from continuing operations	$ 593	$ 704
Other comprehensive income	-	-
Total comprehensive income for the year	$ 593	$ 704

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

c. Investments in joint ventures

	December 31	
	2017	2016
Material joint ventures		
Hsin Ching International Co., Ltd.	$ -	$ 27,484
Mason Metal Industry Co., Ltd.	492,987	-
	$ 492,987	$ 27,484

Because of the execution of upstream and downstream strategic alliance and the reinforcement of the sales status and the added value of various steel products, the Company purchased 24,500 thousand of common stocks of Mason Metal Industry Co., Ltd. at a price of NT$11.4 per share, and the Company's subsidiary, Sinpao Investment Co., Ltd., purchased 500 thousand of common stocks, resulting in a total of 50% of shareholder rights and the total purchase price of NT$285,077 thousand, in which the transaction was completed on October 6, 2017. Under the joint venture agreement, the Company can assign three out of six members of the board of directors of Mason Metal Industry Co., Ltd. Therefore, the Company has a significant impact and joint control with the other company over Mason Metal Industry Co., Ltd.

A bargain purchase gain of NT$206,762 thousand on the acquisition of Mason Metal Industry Co., Ltd. was recognized separately in the statements of comprehensive income.

Refer to Table 4 "Information on Investees" for the nature of activities, principal places of business and countries of incorporation of the joint ventures. All the joint ventures are accounted for using the equity method.

The summarized financial information below represents the amounts shown in the joint ventures' financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

1) Hsin Ching International Co., Ltd.

	December 31, 2016
Cash and cash equivalents	$ 4,906
Current assets	$ 54,906
Non-current assets	63
Equity	$ 54,969
Proportion of the Company's ownership	50%
Equity attributable to the Company	$ 27,484
Carrying amount	$ 27,484

	For the Year Ended December 31, 2016
Net loss for the year	$ (31)
Other comprehensive income	-
Total comprehensive loss for the year	$ (31)

2) Mason Metal Industry Co., Ltd.

	December 31, 2017
Cash and cash equivalents	$ 96,316
Current assets	$ 1,069,540
Non-current assets	285,988
Current liabilities	(307,596)
Non-current liabilities	(432,287)
Equity	$ 615,645
Proportion of the Company's ownership	49%
Equity attributable to the Company	$ 301,666
Provisions	3,570
Gain from bargain purchase	206,762
Other adjustments	(19,011)
Carrying amount	$ 492,987

	For the Period Between October 1 (the Acquisition Date) and December 31, 2017
Operating revenue	$ 472,421
Depreciation and amortization expense	$ 725
Interest income	$ 59
Interest expense	$ 615
Income tax expense	$ 2,812
Net profit for the year	$ 13,539
Other comprehensive income	-
Total comprehensive income for the year	$ 13,539

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Property under Construction and Devices Awaiting Inspection	Total
Cost							
Balance at January 1, 2016	$ 1,824,953	$ 902,307	$ 535,777	$ 118,767	$ 15,213	$ 8,489	$ 3,405,506
Additions	10,332	2,183	18,312	5,238	3,362	13,065	52,492
Disposals	-	(8,244)	(6,761)	(7,083)	-	-	(22,088)
Reclassified	13,500	200	6,466	8,627	-	(15,381)	13,412
Balance at December 31, 2016	$ 1,848,785	$ 896,446	$ 553,794	$ 125,549	$ 18,575	$ 6,173	$ 3,449,322
Accumulated depreciation and impairment							
Balance at January 1, 2016	$ -	$ 184,504	$ 312,187	$ 80,713	$ 9,656	$ -	$ 587,060
Additions	-	24,068	37,813	9,187	1,130	-	72,198
Disposals	-	(3,508)	(6,737)	(7,083)	-	-	(17,328)
Balance at December 31, 2016	$ -	$ 205,064	$ 343,263	$ 82,817	$ 10,786	$ -	$ 641,930
Carrying amounts at December 31, 2016	$ 1,848,785	$ 691,382	$ 210,531	$ 42,732	$ 7,789	$ 6,173	$ 2,807,392
Cost							
Balance at January 1, 2017	$ 1,848,785	$ 896,446	$ 553,794	$ 125,549	$ 18,575	$ 6,173	$ 3,449,322
Additions	68	2,695	12,674	2,962	1,218	816,183	835,800
Disposals	-	-	(3,892)	(1,938)	(86)	-	(5,916)
Reclassified	306,186	558	17,413	11,752	-	(307,217)	28,692
Balance at December 31, 2017	$ 2,155,039	$ 899,699	$ 579,989	$ 138,325	$ 19,707	$ 515,139	$ 4,307,898
Accumulated depreciation and impairment							
Balance at January 1, 2017	$ -	$ 205,064	$ 343,263	$ 82,817	$ 10,786	$ -	$ 641,930
Additions	-	23,829	39,029	10,545	1,268	-	74,671
Disposals	-	-	(2,675)	(1,104)	(71)	-	(3,850)
Balance at December 31, 2017	$ -	$ 228,893	$ 379,617	$ 92,258	$ 11,983	$ -	$ 712,751
Carrying amounts at December 31, 2017	$ 2,155,039	$ 670,806	$ 200,372	$ 46,067	$ 7,724	$ 515,139	$ 3,595,147

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	
Main buildings	40-55 years
Engineering buildings	3-20 years
Equipment	
Main equipment	5-20 years
Equipment maintenance	3-5 years
Transportation equipment	
Truck and automotive	5-8 years
Stacker	5-9 years
Automotive accessories	3 years
Miscellaneous equipment	
Computer equipment	5 years
Office and engineering equipment	3-10 years

The Company purchased land located in Guanyin of 7,387.13 square meters for operation use from 2005 to 2017. As of December 31, 2017, the carrying amount was NT$53,259 thousand. As the law stipulates, the Company shall not have ownership of land registered for agricultural purposes. Thus, the Company shall sign a real estate trust contract with an individual to hold the land.

On November 4, 2014, the board of directors resolved to dispose of a parcel of freehold land located in Taishan and Linkou, which were reclassified to non-current assets held for sale. No impairment loss was recognized on the classification of the land as held for sale. Because the Company can’t complete the sale within 2 years of the classification as held for sale, the land no longer meets the criteria to be classified and was reclassified to property, plant and equipment. The financial statements for the periods since the classification as held for sale were amended accordingly. The carrying amount of the land amended was NT$25,222 thousand as of December 31, 2016.

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 32.

14. INVESTMENT PROPERTIES

	Investment Properties - Land	**Investment Properties - Buildings**	**Investment Properties - Machinery and Equipment**	**Total**
Cost				
Balance at January 1, 2016	$ -	$ -	$ -	$ -
Additions	210,306	19,391	9,525	239,222
Reclassified	3,376	29,847	-	33,223
Balance at December 31, 2016	$ 213,682	$ 49,238	$ 9,525	$ 272,445

(Continued)

	Investment Properties - Land	Investment Properties - Buildings	Investment Properties - Machinery and Equipment	Total
Accumulated depreciation and impairment				
Balance at January 1, 2016	$ -	$ -	$ -	$ -
Depreciation expenses	-	699	433	1,132
Balance at December 31, 2016	$ -	$ 699	$ 433	$ 1,132
Carrying amounts at December 31, 2016	$ 213,682	$ 48,539	$ 9,092	$ 271,313
Cost				
Balance at January 1, 2017	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Additions	-	-	-	-
Reclassified	-	-	-	-
Balance at December 31, 2017	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Accumulated depreciation and impairment				
Balance at January 1, 2017	$ -	$ 699	$ 433	$ 1,132
Depreciation expenses	-	1,601	866	2,467
Balance at December 31, 2017	$ -	$ 2,300	$ 1,299	$ 3,599
Carrying amounts at December 31, 2017	$ 213,682	$ 46,938	$ 8,226	$ 268,846

(Concluded)

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	25 years
Crane equipment	10 years

The determination of fair value was performed by independent qualified professional valuers on March 31, 2017. The evaluation was based on different standards using cost method, comparison and direct capitalization of revenue. After evaluating by the management the Company, the fair value has no significant change since then on December 31, 2017. The management of the Company used the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs on December 31, 2016. The valuation was appraised by reference to market evidence of transaction prices for similar properties. The fair value was as follows:

	December 31	
	2017	2016
Fair value	$ 299,637	$ 313,726

The investment properties pledged as collateral for bank borrowing are set out in Note 32.

15. OTHER ASSETS

	December 31 2017	December 31 2016
Current		
Others	$ 207	$ 429
Non-current		
Refundable deposits	$ 22,557	$ 22,473
Overdue receivables	3,000	42,499
Prepayments for equipment	31,105	5,700
Others	1,069	478
	$ 57,731	$ 71,150

16. BORROWINGS

a. Short-term borrowings

	December 31 2017	December 31 2016
Secured borrowings (Notes 30 and 32)		
Bank loans	$ 500,000	$ 350,000
Letters of credit	530,590	288,958
	1,030,590	638,958
Unsecured borrowings		
Line of credit borrowings (Note 30)	100,000	150,000
Letters of credit	2,319,084	2,413,386
	2,419,084	2,563,386
	$ 3,449,674	$ 3,202,344

The range of weighted average effective interest rates on bank loans was 1.0%-3.1% and 1.2%-2.6% per annum as of December 31, 2017 and 2016, respectively.

b. Short-term bills payable

	December 31 2017	December 31 2016
Commercial paper (Note 30)	$ 470,000	$ 190,000
Less: Unamortized discount on bills payable	(492)	(226)
	$ 469,508	$ 189,774

Outstanding short-term bills payable were as follows:

December 31, 2017

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral
Commercial paper					
A bank	$ 250,000	$ 316	$ 249,684	1.2%	-
B bank	100,000	92	99,908	1.2%	-
C bank	50,000	65	49,935	1.2%	-
D bank	40,000	4	39,996	1.2%	-
E bank	30,000	15	29,985	1.2%	-
	$ 470,000	$ 492	$ 469,508		

December 31, 2016

Promissory Institutions	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral
Commercial paper					
A bank	$ 150,000	$ 157	$ 149,843	1.2%	-
B bank	40,000	69	39,931	1.3%	-
	$ 190,000	$ 226	$ 189,774		

c. Long-term borrowings

	December 31 2017	December 31 2016
Secured borrowings (Notes 30 and 32)		
Syndicated bank loans - Land Bank of Taiwan (1)	$ 1,600,000	$ 1,600,000
Bank loans - Banking Division of Mega Bank (2)	150,000	-
	1,750,000	1,600,000
Less: Current portions	(1,010,526)	(200,000)
Syndicated loan fees	(1,962)	(3,342)
Long-term borrowings	$ 737,512	$ 1,396,658

1) In August 2014 and October and December 2017, the Company acquired syndicated bank loans from Land Bank of Taiwan secured by the Company’s freehold land and buildings (refer to Note 32) in the amount of NT$1,000,000 thousand, NT$500,000 thousand and NT$300,000 thousand, respectively, and all will be repayable in August 2019. The grace period of the loans acquired in 2014 was 2.5 years. From the date of expiry of the grace period, the repayment of principal and interest is divided into six installments every six months. The first to the fifth installments are 10% of the outstanding balance of the loan, and the sixth installment shall be all of the remaining outstanding principal and the interest balance.

The loans acquired in 2017 had a revolving credit line. Interest shall be paid by month, and on the expiry date the loan shall be extended or settled. After 3 years of the first use of the loans, the credit line shall be reduced to 80% of the original credit line and to 60% after 4 years. The outstanding principal and interest shall be settled on the credit line adjustment day, and all of the remaining outstanding principal and interest shall be fully settled at the maturity date of this credit. Currently, the days of the loans are 90 days.

Under the agreements, the Company's current ratio, net-debt ratio and times interest earned ratio should meet some criteria which were based on the consolidated financial statements of the Company. If the Company breaches the financial ratios specified in the agreements, the Company shall amend the status of its financial ratios to meet the agreed upon ratios within five months from April 1 of the following auditing year, and this will not be considered as breach of the agreement. The Company was in compliance with the syndicated credit facility agreements based on the consolidated financial statements of the Company for the year ended December 31, 2017. The weighted average effective interest rates were both 1.7% per annum in 2017 and 2016.

2) In January 2017, the Company acquired syndicated bank loans from Banking Division of Mega Bank secured by the Company's freehold land and buildings (refer to Note 32) in the amount of NT$150,000 thousand, and will be expired in January 2032. Starting from the January of 2018, the repayment of principal is divided into 57 installments every 3 months, with the amount of NT$2,632 thousand per installment. The weighted average effective interest rate was 1.7% per annum in 2017.

17. BONDS PAYABLE

	December 31	
	2017	**2016**
Unsecured domestic convertible bonds - Hsin Kuang 4	$ -	$ 108,418
Unsecured domestic convertible bonds - Hsin Kuang 5	532,148	-
	532,148	108,418
Less: Current portions	-	(108,418)
	$ 532,148	$ -

a. Unsecured domestic convertible bonds - Hsin Kuang 4

As of December 20, 2013, the Company issued 5 thousand 0% NTD denominated unsecured convertible bonds in Taiwan, with an aggregate principal amount of NT$500,000 thousand.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of NT$19. If the Company increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Company's 4th Unsecured Convertible Bond Conversion Method. Conversion may occur at any time between January 20, 2014 and December 10, 2018. The holder can notify the Company 30 days before the expiry of 3 to 4 years from issuance to request the accrued interest based on the denomination of the bonds (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.28% per annum, and the conversion option derivative instruments were measured at fair value through profit or loss.

Movements of the host liability instrument were as follows:

	December 31	
	2017	2016
Proceeds from issuance	$ 500,000	$ 500,000
Equity component	(42,450)	(42,450)
Conversion option derivative instruments	(10,950)	(10,950)
The host liability instrument at date issued	446,600	446,600
Interest charged at an effective interest rate	53,400	48,318
Convertible bonds converted into ordinary shares	(500,000)	(386,500)
The host liability instrument at end of the year	-	108,418
Less: Current portions	-	(108,418)
Denominated unsecured convertible bonds	$ -	$ -

Movements of the conversion option derivative instruments during 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Beginning of the year	$ 91	$ 13,652
Fair value changes loss (gain)	2,395	(5,556)
Converted into ordinary shares	(2,486)	(8,005)
End of the year	$ -	$ 91

b. Unsecured domestic convertible bonds - Hsin Kuang 5

On November 9, 2017, the Company issued 6 thousand units, five-year period of 0% NTD denominated unsecured convertible bonds in Taiwan, with an aggregate principal amount of NT$601,200 thousand, which was 100.2% of nominal amount.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of NT$36. If the Company increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Company's 5th Unsecured Convertible Bond Conversion Method. Conversion may occur at any time between February 10, 2018 and November 9, 2022. The holder can notify the Company 30 days before the expiry of 3 to 4 years from issuance to request the accrued interest based on the denomination of the bonds (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.61% per annum, and the conversion option derivative instruments were measured at fair value through profit or loss.

Movements of the host liability instruments were as follows:

	December 31, 2017
Proceeds from issuance	$ 601,200
Equity component	(54,892)
Conversion option derivative instruments	(15,551)
The host liability instrument at date issued	530,757
Interest charged at an effective interest rate	1,391
The host liability instrument at end of the year	532,148
Less: Current portions	-
Denominated unsecured convertible bonds	$ 532,148

Movements of the conversion option derivative instruments during 2017 were as follows:

	December 31, 2017
Issued date	$ 15,551
Fair value changes loss	2,545
End of the year	$ 18,096

18. NOTES PAYABLE AND TRADE PAYABLES

	December 31	
	2017	2016
Notes payable		
Operating	$ 424,271	$ 433,608
Trade payables		
Operating	$ 9,820	$ 73,151

19. OTHER PAYABLES

	December 31	
	2017	2016
Interest payable	$ 12,971	$ 12,911
Payables for salaries and bonuses	107,359	84,406
Others	27,412	31,296
	$ 147,742	$ 128,613

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2017	**2016**
Present value of defined benefit obligation	$ 48,730	$ 39,082
Fair value of plan assets	(20,950)	(19,390)
Net defined benefit liabilities	$ 27,780	$ 19,692

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities**
Balance at January 1, 2016	$ 37,816	$ (605)	$ 37,211
Service cost			
Current service cost	351	-	351
Net interest expense (income)	473	(17)	456
Recognized in profit or loss	824	(17)	807
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(84)	(84)
Actuarial loss - changes in demographic assumptions	932	-	932
Actuarial loss - changes in financial assumptions	402	-	402
Actuarial loss - experience adjustments	2,493	-	2,493
Recognized in other comprehensive income	3,827	(84)	3,743

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Contributions from the employer	$ -	$ (22,069)	$ (22,069)
Benefits paid	(3,385)	3,385	-
Balance at December 31, 2016	39,082	(19,390)	19,692
Service cost			
Current service cost	288	-	288
Past service cost	5,845	-	5,845
Net interest expense (income)	440	(228)	212
Recognized in profit or loss	6,573	(228)	6,345
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	51	51
Actuarial loss - changes in demographic assumptions	928	-	928
Actuarial loss - changes in financial assumptions	464	-	464
Actuarial loss - experience adjustments	2,090	-	2,090
Recognized in other comprehensive income	3,482	51	3,533
Contributions from the employer	-	(1,790)	(1,790)
Benefits paid	(407)	407	-
Balance at December 31, 2017	$ 48,730	$ (20,950)	$ 27,780

(Concluded)

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

	For the Year Ended December 31	
	2017	2016
Operating costs	$ 193	$ 244
Selling and marketing expenses	$ 6,103	$ 468
General and administrative expenses	$ 49	$ 95

Through the defined benefit plan under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2017	**2016**
Discount rates	1.000%	1.125%
Expected rates of salary increase	1.500%	1.500%

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

	December 31	
	2017	**2016**
Discount rates		
0.25%Increase	$ (963)	$ (847)
0.25% Decrease	$ 998	$ 877
Expected rates of salary increase		
0.25% Increase	$ 973	$ 856
0.25% Decrease	$ (944)	$ (830)

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

	December 31	
	2017	**2016**
Expected contributions to the plans for the next year	$ 4,925	$ 1,678
The average duration of the defined benefit obligation	8 years	8.7 years

21. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2017	**2016**
Number of shares authorized (in thousands)	360,000	360,000
Shares authorized	$ 3,600,000	$ 3,600,000
Number of shares issued and fully paid (in thousands)	306,194	299,188
Shares issued	$ 3,061,937	$ 2,991,876

The share issued had a par value of NT$10. Each share entitles the rights to dividends and to vote.

For the year ended December 31, 2017, the shares increased due to the employees' exercise of their employee share options, and conversion of bonds into ordinary shares.

b. Capital surplus

	December 31	
	2017	**2016**
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	$ 767,865	$ 962,237
Treasury share transactions	7,754	7,754
Conversion of bonds	-	9,637
May be used to offset a deficit only (2)		
Changes in percentage of ownership interest in subsidiaries	528	531
May not be used for any purpose (3)		
Employee share options	36,647	36,647
Share warrants	54,892	-
	$ 867,686	$ 1,016,806

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

2) Such capital surplus arises from the effects of changes in ownership interests in subsidiaries resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of subsidiaries accounted for using the equity method.

3) Such capital surplus may not be used for any purpose.

c. Retained earnings and dividends policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 15, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividends policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employee compensation and remuneration of directors and supervisors in Note 23-g.

To ensure the interests of shareholders and the Company's sustainable development, the Company adopts a balanced dividends policy.

The dividends payment principle shall not be less than 30% of the remaining of the following items: A profit in a fiscal year with the provisions of the preceding paragraph utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside a special reserve, distributing remuneration of the directors and supervisors and bonus of employees. Among the dividends payment, no less than 30% shall be paid in cash and no more than 70% shall be distributed as stocks. In accordance with the principle on dividends payment as set out in the preceding paragraph, the Company shall, in accordance with the actual operating, finance and business conditions and the actual profit of the year, consider the capital budget plan for the following year, determine the most appropriate dividend policy, after implementing the decisions mandated by resolutions in the shareholders' meeting.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reverse from a special reserve by the Company.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on June 15, 2017 and June 15, 2016, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 74,776	$ -	$ -	$ -
Cash dividends	306,194	-	1.0	-
Cash dividends from by capital surplus	244,955	165,976	0.8	0.6

The appropriation of earnings for 2017 was proposed by the Company's board of directors on March 13, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 106,623	$ -
Cash dividends	459,290	1.50
Cash dividends from capital surplus	153,097	0.50

The appropriation of earnings for 2017 is subject to the resolution in the shareholders' meeting to be held on June 19, 2018.

d. Special reserves

	For the Year Ended December 31	
	2017	2016
Beginning at January 1	$ 231,141	$ -
Appropriation in respect of:		
Debit to other equity items	-	231,141
Reversal:		
Reversal of the debit to other equity items	(211,734)	-
Balance at December 31	$ 19,407	$ 231,141

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 9,034	$ 17,523
Exchange differences on translating the financial statements of foreign operations	(10,373)	(8,489)
Balance at December 31	$ (1,339)	$ 9,034

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (28,441)	$ (499,891)
Unrealized gain arising on revaluation of available-for-sale financial assets	58,600	471,450
Balance at December 31	$ 30,159	$ (28,441)

22. REVENUE

	For the Year Ended December 31	
	2017	2016
Revenue from the sale of goods	$ 8,086,772	$ 6,262,775
Revenue from the rendering of services	81,011	-
	$ 8,167,783	$ 6,262,775

23. NET PROFIT AND OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS

Net Profit from Continuing Operations:

a. Other operating income and expenses

	For the Year Ended December 31	
	2017	2016
Net gain on evaluation of financial assets	$ 163,629	$ 8,308
Net (loss) gain on evaluation of financial liabilities	(24,856)	5,556
Net loss on disposal of available-for-sale financial assets	(55,796)	-
Impairment loss on available-for-sale financial assets	(3,860)	(1,715)
Dividends	79,959	57,495
	$ 159,076	$ 69,644

b. Other income

	For the Year Ended December 31	
	2017	2016
Interest income - bank deposits	$ 775	$ 913
Rental income	10,643	5,432
Others	1,814	5,189
	$ 13,232	$ 11,534

c. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Net loss on disposal of property, plant and equipment	$ (518)	$ (3,156)
Net foreign exchange gains	105,581	43,726
	$ 105,063	$ 40,570

d. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on bank loans	$ 112,303	$ 81,980
Interest on convertible bonds	1,495	8,901
Less: Amounts included in the cost of qualifying assets	(7,558)	(565)
	$ 106,240	$ 90,316

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2017	2016
Capitalized interest	$ 7,558	$ 565
Capitalization rate	2.5%	2.5%

e. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 74,671	$ 72,198
Investment properties	2,467	1,132
Long-term prepayments	690	529
	$ 77,828	$ 73,859
An analysis of depreciation by function		
Operating costs	$ 62,682	$ 61,044
Operating expenses	14,456	12,286
	$ 77,138	$ 73,330
An analysis of amortization by function		
Operating costs	$ 672	$ 529
Operating expenses	18	-
	$ 690	$ 529

f. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term benefits	$ 233,699	$ 220,156
Post-employment benefits (Note 20)		
Defined contribution plans	4,380	3,996
Defined benefit plans	6,345	807
	$ 244,424	$ 224,959
An analysis of employee benefits expense by function		
Operating costs	$ 88,588	$ 77,455
Operating expenses	155,836	147,504
	$ 244,424	$ 224,959

g. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Company's board of directors on March 13, 2018 and March 14, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	**2016**
Employees' compensation	3%	3%
Remuneration of directors and supervisors	3%	3%

Amount

	For the Year Ended December 31			
	2017		**2016**	
	Cash	**Shares**	**Cash**	**Shares**
Employees' compensation	$ 38,309	$ -	$ 25,876	$ -
Remuneration of directors and supervisors	38,309	-	25,876	-

If there is a change in the amounts after the parent only financial statements were authorized for issuance, the differences are recorded as a change in the accounting estimate.

Information on employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

h. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2017	**2016**
Foreign exchange gains	$ 235,776	$ 151,011
Foreign exchange losses	(130,195)	(107,285)
	$ 105,581	$ 43,726

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	$ 100,785	$ 10,727
Income tax on unappropriated earnings	36,370	-
Adjustments for prior years	53	-
	137,208	10,727
Deferred tax		
In respect of the current year	(3,477)	50,189
Income tax expense recognized in profit or loss	$ 133,731	$ 60,916

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

	For the Year Ended December 31	
	2017	2016
Profit before tax from continuing operations	$ 1,199,957	$ 808,690
Income tax expense calculated at the statutory rate	$ 203,993	$ 137,477
Non-taxable income	(75,224)	(8,651)
Tax-exempt income	(25,202)	(14,295)
Income tax on unappropriated earnings	36,370	-
Used loss carryforwards	(8,091)	(63,718)
Unrecognized deductible temporary differences	1,832	10,103
Adjustments for prior years' tax	53	-
Income tax expense recognized in profit or loss	$ 133,731	$ 60,916

The applicable corporate income tax rate used by the company entity in the ROC is 17%.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by NT$2,382 thousand and NT$810 thousand, respectively, in 2018.

As the status of the 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred tax		
In respect of the current year:		
Translation of foreign operations	$ (2,125)	$ 1,850
Remeasurement on defined benefit plan	(605)	(636)
	(2,730)	1,214
Total income tax recognized in other comprehensive income	$ (2,730)	$ 1,214

c. Current tax assets and liabilities

	December 31	
	2017	**2016**
Current tax liabilities		
Income tax payable	$ 131,731	$ 10,679

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Compre-hensive Income**	**Closing Balance**
Deferred tax assets				
Temporary differences				
Reversal of write-downs of inventories	$ 75	$ 338	$ -	$ 413
FVTPL financial assets	-	3,386	-	3,386
Convertible bonds	-	432	-	432
Net loss (gain) on foreign currency exchange	3,981	(3,981)	-	-
Defined benefit obligation	2,366	775	605	3,746
Allowance for impaired receivables	-	5,247	-	5,247
Exchange differences on translating the financial statements of foreign operations	-	-	274	274
	$ 6,422	$ 6,197	$ 879	$ 13,498
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ 1,463	$ (1,463)	$ -	$ -
Convertible bonds	407	(407)	-	-
Net gain on foreign currency exchange	-	4,590	-	4,590
Exchange differences on translating the financial statements of foreign operations	1,851	-	(1,851)	-
	$ 3,721	$ 2,720	$ (1,851)	$ 4,590

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Reversal of write-down of inventories	$ 51,474	$ (51,399)	$ -	$ 75
FVTPL financial assets	(9,586)	9,586	-	-
Convertible bonds	537	(537)	-	-
Net loss (gain) on foreign currency exchange	4,306	(325)	-	3,981
Defined benefit obligation	5,345	(3,615)	636	2,366
Allowance for impaired receivables	2,029	(2,029)	-	-
	$ 54,105	$ (48,319)	$ 636	$ 6,422
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ -	$ 1,463	$ -	$ 1,463
Convertible bonds	-	407	-	407
Exchange differences on translating the financial statements of foreign operations	-	-	1,851	1,851
	$ -	$ 1,870	$ 1,851	$ 3,721

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2017	2016
Loss carryforwards		
Expire in 2025	$ -	$ 7,982
Deductible temporary differences		
Share of unrealized income of foreign subsidiaries	$ (2,047)	$ (3,223)
Impairment loss on available-for-sale financial assets	23,365	22,708
	$ 21,318	$ 19,485

f. Information about unused loss carryforwards and tax exemptions

As of December 31, 2017, profits attributable to the following expansion projects were exempt from income tax for a 5-year period:

Expansion of Construction Project	**Tax-exemption Period**
Production of metal products manufacturing investment plan	January 1, 2013-December 31, 2017

g. Integrated income tax

	December 31	
	2017	**2016**
Unappropriated earnings		
Generated on and after January 1, 1998	$ 1,638,702 (Note)	$ 744,667
Shareholder-imputed credits account ("ICA")	$ 134,109 (Note)	$ 101,093

	For the Year Ended December 31	
	2017 (Expected)	**2016**
Creditable ratio for distribution of earnings	Note	22.35%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

h. Income tax assessments

The tax returns through 2015 and income tax on unappropriated earnings through 2014 have been assessed by the tax authorities.

25. EARNINGS PER SHARE

Net Profit for the Year

	For the Year Ended December 31	
	2017	**2016**
Profit for the period attributable to owners of the Company	$ 1,066,226	$ 747,774
Effect of dilutive ordinary shares:		
Interest on convertible bonds (after tax)	1,155	7,388
Earnings used in the computation of diluted earnings per share	$ 1,067,381	$ 755,162

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

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in the computation of basic earnings per share	305,740	279,725
Effect of potentially dilutive ordinary shares:		
Convertible bonds	16,667	7,006
Employees' compensation or bonuses issued to employees	1,431	1,198
Weighted average number of ordinary shares used in the computation of diluted earnings per share	323,838	287,929

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

26. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Company

Qualified employees of the Company and its subsidiaries were granted 2,500 options in March 2011. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted were valid for 5 years and exercisable at 40% after the second anniversary, at 70 % after the third anniversary and at 100 % after the fourth anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

The Company did not issue additional employee share options for the years ended December 31, 2017 and 2016, and all of the issued employee share options were exercised during 2016.

Information on employee share options was as follows:

	For the Year Ended December 31, 2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	1,134	$ 15.25
Options forfeited	(146)	-
Options exercised	(988)	14.40
Balance at December 31	-	
Options exercisable, end of year	-	
Weighted-average fair value of options granted (NT$)	$ -	

27. ACQUISITION OF SUBSIDIARIES - IMPACT ON CONTROL

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Hsin Ching International Co., Ltd.	Leasing and warehousing	February 2017	Originally held 50%, now increase to 60%	$ 5,500

Hsin Ching International Co., Ltd. was acquired in order to continue the expansion of the Company's diversification. For details about the acquisition of Hsin Ching International Co., Ltd., refer to Note 29 to the Company's consolidated financial statements for the year ended December 31, 2017.

28. PARTLY ACQUISITION OR DISPOSAL OF SUBSIDIARIES - NO IMPACT ON CONTROL

In January and August 2016, the Company subscribed for additional new shares of Hsin Ho Fa Metal Co., Ltd. at a percentage different from its existing ownership percentage, increasing its continuing interests from 81.96% to 83.37%.

The above transactions were accounted for as equity transactions, since the Company did not change impact on control over the subsidiary.

29. CAPITAL MANAGEMENT

The Company manages its capital to ensure to be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's overall strategy has remained unchanged over the past 5 years.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, reserves, retained earnings, and other equity).

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

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

30. FINANCIAL INSTRUMENTS

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

The management believes that the carrying amounts of financial assets and liabilities that are not measured at fair value approximate their fair values:

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Other financial assets - current	$ 87,706	$ 87,706	$ 65,576	$ 65,576
Other loans and receivables	2,980,494	2,980,494	2,794,588	2,794,588
Financial liabilities				
Financial liabilities measured at amortized cost:				
Bank loans (including current portions)	5,197,712	5,197,712	4,799,002	4,799,002
Short-term bills payable	469,508	469,508	189,774	189,774
Trade and other payables	581,833	581,833	635,372	635,372
Convertible bonds	532,148	532,148	108,418	108,418

The methods and assumptions used by the Company for estimating financial instruments not measured at fair value are as follows:

1) The fair value of financial instruments, included cash and cash equivalents, trades receivables, other receivables - loans receivable, overdue receivables, trade payables, other financial assets, short-term borrowings, and short-term bills payable, is estimated using the carrying amount at the end of the reporting period because the maturity date is close to the reporting date or the payment price is close to the carrying amount.

2) The fair value of long-term loans is determined using the discounted cash flow. Future cash flows are discounted at a long-term borrowing rate of the Company. The Company accounted for the carrying amount of the long-term loans at the end of the reporting period as their fair values.

3) The fair value of the liability component of convertible bonds is estimated using an amortized cost basis under the effective interest method, and the conversion options component of the convertible bonds is recognized at fair value. The fair value of the liability component of the convertible bonds is recognized at the carrying amount at the end of the reporting period.

b. Financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ -	$ -	$ -
Non-derivative financial assets held for trading	503,339	-	-	503,339
	$ 503,339	$ -	$ -	$ 503,339
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,490,039	$ -	$ -	$ 1,490,039
Unlisted securities - ROC				
Equity securities	-	-	94,275	94,275
Unlisted securities - other countries				
Equity securities	-	-	348,222	348,222
	$ 1,490,039	$ -	$ 442,497	$ 1,932,536
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 38,012	$ -	$ 38,012

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ 8,609	$ -	$ 8,609
Non-derivative financial assets held for trading	514,151	-	-	514,151
	$ 514,151	$ 8,609	$ -	$ 522,760
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,732,983	$ -	$ -	$ 1,732,983
Unlisted securities - ROC				
Equity securities	-	-	60,823	60,823
Unlisted securities - other countries				
Equity securities	-	-	348,223	348,223
	$ 1,732,983	$ -	$ 409,046	$ 2,142,029

(Continued)

	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 91	$ -	$ 91

(Concluded)

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

	Available-for-sale Financial Assets For the Year Ended December 31 2017	2016
Beginning of the year	$ 409,046	$ 422,769
Recognized in profit or loss (included in other operating income and expenses)		
Unrealized	(3,860)	(1,715)
Purchases	47,729	442
Sales (included in shares return of investments)	(10,418)	(12,450)
End of the year	$ 442,497	$ 409,046

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivatives - conversion option component of convertible bonds	The value of the bonds payable and redemption and put options is estimated based on the binomial CB pricing model and historical volatility, risk-free interest rate, discount rate and liquidity risk at the end of the reporting period.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of unlisted equity securities - ROC were determined using the market approach. In this approach, the fair value is appraised based on the selling price of similar items, such as assets, liabilities, or the groups of assets and liabilities. The significant unobservable factors used are described below, an increase in long-term revenue growth rates, long-term pre-tax operating margin, a decrease in the weighted average cost of capital, or the discount for lack of marketability used in isolation would result in increases in the fair values.

c. Categories of financial instruments

	December 31	
	2017	**2016**
Financial assets		
Fair value through profit or loss (FVTPL) - held for trading	$ 503,339	$ 522,760
Loans and receivables (1)	2,980,494	2,794,588
Available-for-sale financial assets	1,932,536	2,142,029
Financial liabilities		
Fair value through profit or loss (FVTPL) - held for trading	38,012	91
Amortized cost (2)	6,781,201	5,732,566

1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, other receivables - loans receivable and overdue receivables.

2) The balances include financial liabilities measured at amortized cost, which comprise short-term and long-term loans, short-term bills payable, trade and other payables, and bonds issued.

d. Financial risk management objectives and policies

The Company's major financial instruments include equity investments, derivative financial instruments, notes receivable, trade receivables, overdue receivables, short-term bills payable, notes payables, trade payables, other payables, bonds payable and borrowings. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Company's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Company did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see "a. foreign currency risk" below) and interest rates (see "b. interest rate risk" below). The Company entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

a) Foreign exchange forward contracts to hedge the exchange rate risk arising on the import and export of steel plates;

b) Interest rate swaps to mitigate the risk of rising interest rates.

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

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period were as follows:

	December 31	
	2017	**2016**
Assets		
USD	$ 117,394	$ 98,078
Liabilities		
USD	1,885,821	1,949,448
JPY	-	7,014

Sensitivity analysis

The Company was mainly exposed to USD and JPY.

The following table details the Company's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss	$ 17,708 (i)	$ 18,542 (i)

	JPY Impact	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss	$ - (ii)	$ 71 (ii)

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

ii. This was mainly attributable to the exposure outstanding on JPY letters of credit, which were not hedged at the end of the reporting period.

The Company's sensitivity to foreign currency increased during the current year mainly due to the impact of decrease in USD exchange rate at the end of the year.

In management's opinion, sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

b) Interest rate risk

The Company was exposed to interest rate risk because the Company borrowed funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and the defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

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

	December 31	
	2017	**2016**
Cash flow interest rate risk		
Financial assets	$ 281,200	$ 200,640
Financial liabilities	5,667,220	4,988,776

Sensitivity analysis

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

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2017 and 2016 would decrease/increase by NT$56,480 thousand and NT$41,440 thousand, respectively, which was mainly a result of the changes in the variable interest rate bank deposits and loans.

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities. The Company has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for years ended December 31, 2017 and 2016 would have increased/decreased by NT$5,008 thousand and NT$5,184 thousand, respectively, as a result of the changes in the fair value of held-for-trading investments, and the pre-tax other comprehensive income for the years ended December 31, 2017 and 2016 would increase/decrease by NT$15,051 thousand and NT$17,576 thousand, respectively, as a result of the changes in the fair value of available-for-sale shares.

The Company's sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to the failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets which were mainly trade receivables from operation activities.

In order to minimize credit risk, management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Company's credit risk was significantly reduced.

Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

The Company did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did not exceed 10% of the gross monetary assets at any time during 2017 and 2016.

The Company's concentration of credit risk by geographical locations was mainly in Taiwan, which accounted for 90% and 92% of the total trade receivable as of December 31, 2017 and 2016, respectively.

The credit risk on derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

3) Liquidity risk

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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2017 and 2016, the Company had available unutilized short-term bank loan facilities of NT$5,598,062 thousand and NT$5,180,582 thousand, respectively.

a) Liquidity and interest risk rate tables

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The table included both interest and principal cash flows.

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

December 31, 2017

Non-derivative financial liabilities	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-interest bearing	-	$ 66,675	$ 349,908	$ 158,316	$ 6,439	$ 495
Variable interest rate liabilities	1.87	599,881	1,587,218	2,740,648	642,105	97,368
		$ 666,556	$ 1,937,126	$ 2,898,964	$ 648,544	$ 97,863

December 31, 2016

Non-derivative financial liabilities	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-interest bearing	-	$ 252,941	$ 254,272	$ 119,116	$ 5,218	$ 954
Variable interest rate liabilities	1.81	556,887	765,070	2,266,819	1,400,000	-
		$ 809,828	$ 1,019,342	$ 2,385,935	$ 1,405,218	$ 954

The following table details the Company's expected maturity for some of its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Company's liquidity risk management as the liquidity is managed on a net asset and liability basis. In order to understand the liquidity risk management of the Company on the basis of net assets and net liabilities, the following information is necessary for non-derivative financial assets:

December 31, 2017

Non-derivative financial assets	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-interest bearing	-	$ 1,186,603	$ 889,977	$ 193,720	$ -	$ 3,000
Variable interest rate assets	0.28	201,494	67,210	12,496	-	-
		$ 1,388,097	$ 957,187	$ 206,216	$ -	$ 3,000

December 31, 2016

Non-derivative financial assets	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-interest bearing	-	$ 1,230,341	$ 908,218	$ 141,189	$ -	$ 3,000
Variable interest rate assets	0.46	135,064	36,014	29,562	-	-
		$ 1,365,405	$ 944,232	$ 170,751	$ -	$ 3,000

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31	
	2017	2016
Bank loan facilities expired on 2019 which may be extended upon mutual agreement:		
Amount used	$ 5,637,236	$ 4,988,776
Amount unused	6,300,024	6,083,924
	$ 11,937,260	$ 11,072,700

31. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related parties and their relationship with the Company:

Related Party	Relationship with the Company
Hsin Ching International Co., Ltd.	Subsidiary
Hsin Yuan Investment Co., Ltd.	Subsidiary
Sinpao Investment Co., Ltd.	Subsidiary
Hsin Ho Fa Metal Co., Ltd.	Subsidiary
Hsin Kuang Alga Engineering Co., Ltd.	Subsidiary
Mason Metal Industry Co., Ltd.	Joint venture

b. Sale of goods

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
Hsin Kuang Alga Engineering Co., Ltd.	$ 4,212	$ 1,895
Joint venture		
Mason Metal Industry Co., Ltd.	8,647	
	$ 12,859	$ 1,895

c. Purchases of goods and operating costs

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
Hsin Kuang Alga Engineering Co., Ltd.	$ 1,431	$ 6,894
Hsin Ho Fa Metal Co., Ltd.	-	11,733
Joint venture		
Mason Metal Industry Co., Ltd.	1,935	-
	$ 2,348	$ 18,627

The Company’s purchase and payment terms and conditions to related parties were comparable to unrelated parties.

d. Receivables from related parties (excluding loans to related parties)

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
Hsin Kuang Alga Engineering Co., Ltd.	$ 4,253	$ 8,598
Joint venture		
Mason Metal Industry Co., Ltd.	9,079	-
	$ 13,332	$ 8,598

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2017 and 2016, no impairment loss was recognized for trade receivables from the related parties.

e. Payables to related parties

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
Hsin Kuang Alga Engineering Co., Ltd.	$ 180	$ 16,370
Hsin Ho Fa Metal Co., Ltd.	-	3,148
Joint venture		
Mason Metal Industry Co., Ltd.	2,032	-
	$ 2,212	$ 19,518

The outstanding trade payables from related parties are unsecured and will be paid in cash.

f. Acquisitions of property, plant and equipment

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
Hsin Kuang Alga Engineering Co., Ltd.	$ -	$ 13,088

g. Loans to related parties

Related Party Category/Name	For the Year Ended December 31 2017	2016
Other receivables		
Subsidiaries		
Hsin Ho Fa Metal Co., Ltd.	$ -	$ 13,000

h. Endorsements and guarantees

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
Hsin Kuang Alga Engineering Co., Ltd.		
Amount endorsed	$ 7,400	$ 7,400
Amount utilized	7,400	7,400

i. Other transactions with related parties

Due to the business development, the Company collects the performance bond with the value of NT$250,000 thousand from Hsin Ching International Co., Ltd., and will return it without interest after signing the contract.

j. Compensation of key management personnel

The amount of the remuneration of directors and key management personnel were as follows:

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	$ 64,194	$ 37,650

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and lease guarantees:

	December 31	
	2017	2016
Notes receivable	$ 257,000	$ 225,140
Pledge deposits (classified as other financial assets - current)	87,706	65,576
Available-for-sale financial assets - non-current	235,125	234,175
Freehold land	720,991	725,630
Buildings, net	320,792	332,768
Investment properties - land	195,959	-
Investment properties - buildings	31,791	-
	$ 1,849,364	$ 1,583,289

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2017 and 2016 were as follows:

Significant Commitments

a. As of December 31, 2017 and 2016, unused letters of credit for purchases of raw materials and machinery and equipment amounted to were as follows:

	December 31	
	2017	2016
TWD	$ 127,639	$ 248,882
USD	13,167	40,239
JPY	-	20,900

b. Unrecognized commitments were as follows:

	December 31	
	2017	2016
Acquisition of property, plant and equipment	$ 61,976	$ 13,073

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 5,936	29.76 (USD:TWD)	$ 176,642
Non-monetary items			
USD	4,853	29.76 (USD:TWD)	$ 144,434
Financial liabilities			
Monetary items			
USD	63,368	29.76 (USD:TWD)	$ 1,885,821

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 3,791	32.25 (USD:TWD)	$ 121,869
EUR	36	33.9 (EUR:TWD)	1,442
JPY	61	0.2756 (JPY:TWD)	16
RMB	1	4.617 (RMB:TWD)	7
			$ 123,334
Non-monetary items			
USD	5,081	32.25 (USD:TWD)	$ 163,850
Financial liabilities			
Monetary items			
USD	60,448	32.25 (USD:TWD)	$ 1,949,448
JPY	25,451	0.276 (JPY:TWD)	7,014
			$ 1,956,462

35. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others: (Table 1)

2) Endorsements/guarantees provided: (Table 2)

3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): (Table 3)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: (N/A)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: (N/A)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: (N/A)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: (N/A)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: (N/A)

9) Trading in derivative instruments: (Note 7)

10) Information on investees: (Table 4)

b. Information on investments in mainland China

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

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

36. SEGMENT INFORMATION

The segment information for 2017 and 2016 is disclosed in the Company’s consolidated financial statements.

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the combined financial statements of Hsin Kuang Steel Company Limited as of and for the year ended December 31, 2017, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10 "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Hsin Kuang Steel Company Limited and subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

HSIN KUANG STEEL COMPANY LIMITED

By

ALEXANDER SU
Chairman

March 13, 2018

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

<u>*Notice to Readers*</u>

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)

	2017		2016	
ASSETS	**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	160,914	2	13,581	-
Total operating revenue	8,351,912	116	6,411,686	117
OPERATING COSTS (Note 33)				
Cost of goods sold	(7,208,382)	(100)	(5,484,318)	(100)
Construction costs	(53)	-	-	-
Other operating costs	(29,678)	-	(10,379)	-
Total operating costs	(7,238,113)	(100)	(5,494,697)	(100)
GROSS PROFIT	1,113,799	16	916,989	17
OPERATING EXPENSES (Notes 4 and 25)				
Selling and marketing expenses	(190,809)	(3)	(148,301)	(2)
General and administrative expenses	(153,696)	(2)	(95,577)	(2)
Total operating expenses	(344,505)	(5)	(243,878)	(4)
OTHER OPERATING INCOME AND EXPENSES (Note 25)	225,231	3	78,989	1
PROFIT FROM OPERATIONS	994,525	14	752,100	14
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	3,873	-	688	-
Total non-operating income and expenses	214,939	3	59,180	1

(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)	(135,932)	(2)	(61,496)	(1)
NET PROFIT FOR THE YEAR	1,073,532	15	749,784	14
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	(2,955)	-	(3,107)	-
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	58,600	1	471,450	8
	48,195	1	462,921	8
Other comprehensive income for the year, net of income tax	45,240	1	459,814	8
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,118,772	16	$ 1,209,598	22
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ 1,066,226	15	$ 747,774	14
Non-controlling interests	7,306	-	2,010	-
	$ 1,073,532	15	$ 749,784	14
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ 1,111,498	16	$ 1,207,628	22
Non-controlling interests	7,274	-	1,970	-
	$ 1,118,772	16	$ 1,209,598	22
EARNINGS PER SHARE (Note 27)				
From continuing operations				
Basic	$ 3.49		$ 2.67	
Diluted	$ 3.30		$ 2.62	

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				
	Share Capital			Retained Earnings							
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total	Non-controlling Interests	Total Equity
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	(1,018,578)	(362,990)
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	647,816	(631,678)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(6,170)	993
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	142,025	(330,143)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	668,153	998,296
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 810,178	$ 668,153

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

1. ORGANIZATION AND OPERATIONS

Hsin Kuang Steel Company Limited (the “Company”) was incorporated in January 1967. The original paid-in-capital was NT$200 thousands, and then ordinary shares were issued for promoting business expansion and a sound financial structure. The Company’s share was approved to be listed on the Taipei Exchange in April 1997 and then was approved to transfer to the Taiwan Stock Exchange in August 2000. The Company’s shares have been listed on the Taiwan Stock Exchange since September 2000 under the approval of the Financial Supervisory Commission of the ROC.

The Company mainly engages in the cutting, stamping and sale of various steel products, including steel coils, steel plates, stainless steel, alloy steel and special steel.

The consolidated entities were as follows:

Hsin Yuan Investment Co., Ltd. was incorporated on September 22, 1998. The entity mainly engages in investment in various kinds of manufacturing, securities investment, banking and insurance, etc.

Hsin Ho Fa Metal Co., Ltd. was incorporated on January 28, 2003. The entity engages in the sale of metal products for architecture.

Sinpao Investment Co., Ltd. was incorporated in British Virgin Island (B.V.I) in 2001. The entity is a holding company of overseas investments.

Hsin Kuang Alga Engineering Co., Ltd. was incorporated on November 10, 2009. The entity mainly engages in the manufacture and sales of metal products.

Hsin Ching International Co., Ltd. was incorporated on December 18, 2015. The entity mainly engages in leasing and warehousing.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 13, 2018.

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

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

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

1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

   The amendments clarify that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is the fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2/Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique.

2) IFRIC 21 "Levies"

   IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Group accrues the related liability when the transaction or activity that triggers the payment of the levy occurs. If the obligating event occurs over a period of time (such as the generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

3) Annual Improvements to IFRSs 2010-2012 Cycle

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

   The amended IFRS 2 changes the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Group or another entity in the same group or the market price of the equity instruments of the Group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Group as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Group but also of other entities outside the Group. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions are accounted for differently, and the aforementioned amendment should be applied prospectively to those share-based payments granted on or after January 1, 2017.

   IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment should be applied prospectively to business combinations with acquisition dates on or after January 1, 2017. Refer to Note 29 for information on the business combinations that occurred in 2017.

The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker. The judgments made in applying the aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rates will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 "Related Party Disclosures" was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the services paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

4) Annual Improvements to IFRSs 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 "Investment Property", were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the consolidated financial statements of the joint arrangements themselves. The amendment should be applied prospectively starting from January 1, 2017.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of and accounted for in accordance with IAS 39 or IFRS 9, even those contracts which do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and the application of both standards may be required to determine whether an investment property acquired is an acquisition of an asset or a business combination. The amendment will be applied prospectively to acquisitions of investment property on or after January 1, 2017.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and the application of both standards may be required to determine whether the investment property acquired is an acquisition of an asset or a business combination. The amendment should be applied prospectively to acquisitions of investment property on or after January 1, 2017.

5) Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"

The amendment requires that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Accordingly, a joint operator that is an acquirer of such an interest has to:

- Measure most identifiable assets and liabilities at fair value;
- Expense acquisition-related costs (other than debt or equity issuance costs);
- Recognize deferred taxes;

- Recognize any goodwill or bargain purchase gain;
- Perform impairment tests for the cash generating units to which goodwill has been allocated; and
- Disclose required information relevant for business combinations.

The amendments also apply to the formation of a joint operation if, and only if, an existing business is contributed to the joint operation on its formation by one of the parties that participates in the joint operation.

The amendments do not apply to the acquisition of an interest in a joint operation when the parties sharing control are under common control before and after the acquisition.

The amendments should be applied to interests in joint operations acquired on or after January 1, 2017.

6) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

An entity should use the appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of property, plant and equipment and intangible assets are expected to be consumed by the entity.

The amended IAS 16 “Property, Plant and Equipment” stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 “Intangible Assets” clarifies that there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances when:

a) The intangible asset is expressed as a measure of revenue (for example, when there is a contract that specifies the entity’s use of the intangible asset will expire upon the achievement of a revenue threshold); or

b) It can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

7) Annual Improvements to IFRSs 2012-2014 Cycle

Several standards including IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IFRS 5 was amended to clarify that reclassification between non-current assets (or disposal groups) “held for sale” and non-current assets “held for distribution to owners” does not constitute a change to a plan of sale or distribution. Therefore, the previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for “held for distribution to owners” and do not meet the criteria for “held for sale” should be treated in the same way as assets that cease to be classified as held for sale. The amendment should be applied prospectively to transactions that occur on or after January 1, 2017.

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

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

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

The amendments also require additional disclosure if there is a significant difference between the actual operation conditions after a business combination and the expected benefits at the acquisition date.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2018.

New IFRSs	**Effective Date Announced by IASB (Note 1)**
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) Annual Improvements to IFRSs 2014-2016 Cycle

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

The amendment to IFRS 12 clarifies that when an entity’s interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale in accordance with IFRS 5. The Group will apply the aforementioned amendment retrospectively.

2) Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”

The amendments require that market conditions and non-vesting conditions should be taken into account and vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of a cash-settled share-based payment at the measurement date. Instead, they should be taken into account by adjusting the number of awards included in the measurement of the liability arising from any cash-settled share-based payment transaction.

3) IFRS 9 “Financial Instruments” and related amendments

<u>Classification, measurement and impairment of financial assets</u>

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

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

a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

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

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

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

Emerging market shares classified as available-for-sale will be classified as at fair value through profit or loss. Listed shares and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

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

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

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

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss - current	$ -	$ 5,485	$ 5,485
Financial assets at fair value through other comprehensive income - current	-	81,767	81,767
Financial assets at fair value through other comprehensive income - non-current	-	1,934,564	1,934,564
Available-for-sale financial assets - current	81,767	(81,767)	-
Available-for-sale financial assets - non-current	1,940,049	(1,940,049)	-
Total effect on assets	$ 2,021,816	$ -	$ 2,021,816

4) IFRS 15 “Revenue from Contracts with Customers” and related amendments

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

When applying IFRS 15, the Group recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Group satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

If the customer has retained a portion of payment to the Group in accordance with the terms of the contract in order to protect the customer from the contractor’s possible failure to adequately complete its obligations under the contract, such payment arrangement does not include a significant financing component and is recognized as a contract asset before the contractual obligation is completed under IFRS 15. Currently, any retention receivable under a construction contract is recognized as a receivable and is discounted to reflect the time value of money in accordance with IAS 39.

Incremental costs of obtaining a contract will be recognized as an asset to the extent that the Group expects to recover those costs. Such an asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Currently, related costs are recognized as expenses immediately.

IFRS 15 and the related amendments require that when another party is involved in providing goods or services to a customer, the Group is a principal if it controls the specified good or service before that good or service is transferred to a customer. Since a specified good or service is a distinct good or service, the Group determines whether it is a principal or an agent for each specified good or service.

The Group is a principal if it obtains control of any one of the following:

a) The good or another asset that it then transfers to the customer.

b) The right to a service to be performed by another party which gives the Group the ability to direct that party to provide the service to the customer on its behalf.

c) A good or service from another party that it then combines with other goods or services in providing a specified good or service to the customer.

Indicators to support the Group's assessment of whether it controls a specified good or service include, but are not limited to, the following:

a) The Group is primarily responsible for fulfilling the promise to provide the specified good or service.

b) The Group has inventory risk before or after the specified good or service is transferred to the customer.

c) The Group has discretion in establishing the price of the specified good or service.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability.

If the contract is non-cancellable, the Group will recognize a receivable and a contract liability when it has an unconditional right to considerations in accordance with IFRS 15. Currently, considerations are recognized as deferred revenue when received.

The Group elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

In addition, the Group will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The anticipated impact on assets and liabilities when retrospectively applying IFRS 15 as of January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2018**
Notes receivable	$ 1,018,597	$ 24,589	$ 1,043,186
Trade receivables	1,257,797	9,024	1,266,821
Total effect on assets	$ 2,276,394	$ 33,613	$ 2,310,007
Contract liabilities - current	$ -	$ 118,632	$ 118,632
Other current liabilities	104,359	(85,019)	19,340
Total effect on liabilities	$ 104,359	$ 33,613	$ 137,972

5) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

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

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the Group currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendments will be applied retrospectively in 2018.

6) Amendments to IAS 40 "Transfers of Investment Property"

The amendments clarify that the Group should transfer to, or from, investment property when, and only when, a property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that evidence of a change in use is not limited to those illustrated in IAS 40.

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

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

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

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

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

   The amendments stipulate that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

   Conversely, when a company sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the entity’s share of the gain or loss is eliminated. Also, when a company loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors’ interest in the associate or joint venture, i.e. the Company’s share of the gain or loss is eliminated.

2) IFRS 16 “Leases”

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

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

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

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

3) IFRIC 23 “Uncertainty Over Income Tax Treatments”

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

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

4) Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”

The amendments clarified that IFRS 9 shall be applied to account for other financial instruments in an associate or joint venture to which the equity method is not applied. These included long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture.

When the amendments become effective, the Group shall apply the amendments retrospectively. However, the Group may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

5) Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explained that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

When the amendments become effective, the Group shall apply the amendments retrospectively. However, the Group may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

6) Annual Improvements to IFRSs 2015-2017 Cycle

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

7) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

c. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

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

d. Basis of consolidation

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

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

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

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

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

See Note 14 and Table 5 for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

f. Foreign currencies

In preparing the Group's consolidated financial statements, transactions in currencies other than the Group's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

1) Foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

2) Transactions entered into in order to hedge certain foreign currency risks; and

3) Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries, associates, joint ventures and branches in other countries that use currencies which are different from the currency of the Group) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is included in the calculation of equity transactions but is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

g. Inventories

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

h. Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of the equity of associates and joint ventures.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates and joint ventures accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

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

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

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

i. Property, plant and equipment

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

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

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

k. Impairment of tangible assets

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

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

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

l. Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

When the Group is committed to a sale plan involving the disposal of an investment or a portion of an investment in an associate or a joint venture, only the investment or the portion of the investment that will be disposed of is classified as held for sale when the classification criteria are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. If the Group ceases to have significant influence or joint control over the investment after the disposal takes place, the Group accounts for any retained interest that has not been classified as held for sale in accordance with the accounting policies for financial instruments.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

When a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate previously classified as held for sale no longer meets the criteria to be so classified, it is measured at the carrying amount that would have been recognized had such interests not been classified as held for sale. The consolidated financial statements for the periods since classification as held for sale are amended accordingly.

m. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 32.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

iii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, other receivables - loan receivables, and other financial assets) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

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

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

For a financial asset carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For any available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

The repurchase of the Group's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except the following situations, all financial liabilities are carried at amortized cost using the effective interest method:

- Financial liabilities at fair value through profit or loss

  Financial liabilities are classified as at fair value through profit or loss when such financial liabilities are either held for trading or is designated as at fair value through profit or loss.

  Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividends paid on the financial liability. Fair value is determined in the manner described in Note 32.

b) Derecognition of financial liabilities

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

4) Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

5) Derivative financial instruments

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

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

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the contracts are not measured at fair value through profit or loss.

n. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

- Contingent liabilities acquired in investments in associates and joint ventures

Contingent liabilities acquired in investments in associates and joint ventures are initially measured at fair value at the acquisition date, when the fair value of the present obligation resulting from past events can be reliably measured. At the end of subsequent reporting periods, such contingent liabilities are measured at their amortized amount. However, if the present obligation amount is assessed to have a probable outflow of resources, the contingent liabilities shall be measured at the higher of the present obligation amount and the amortized amount.

o. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowances for sales returns and liabilities for returns are recognized at the time of sale based on the seller’s reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

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

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

- The amount of revenue can be measured reliably;

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

- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of material ownership.

2) Rendering of services

Service income is recognized when services are provided.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) Dividend and interest income

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

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

p. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When it is probable that total contract costs will exceed the total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profit less recognized deficits exceed progress billings, the surplus is shown as the gross amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profit less recognized deficits, the surplus is shown as the gross amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheets as a liability, as other current liabilities. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheets under trade receivables.

q. Leasing

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

r. Borrowing costs

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

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

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

s. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

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

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

t. Employee share options

Employee share options granted to employees and others providing similar services.

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group’s best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

u. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carry forward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of trade receivables

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

As of December 31, 2017 and 2016, the amount of notes receivable, trade receivables and overdue receivables was NT$2,279,394 thousand and NT$2,339,922 thousand, respectively. (After deducting the allowance for impairment loss, the amount was NT$54,133 thousand and NT$19,916 thousand, respectively.)

b. Write-down of inventories

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	$ 791	$ 786
Checking accounts and demand deposits	809,387	667,367
	$ 810,178	$ 668,153

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

	December 31	
	2017	2016
Bank balance	0.001%-0.28%	0.01%-0.1%

As of December 31, 2017 and 2016, the time deposits with an original maturity of more than 3 months were NT$90,246 thousand and NT$70,073 thousand, respectively, which were classified as other current financial assets. Refer to Note 13 for further information.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Financial assets-current		
Financial assets held for trading		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts (a)	$ -	$ 8,775
Non-derivative financial assets		
Domestic quoted shares	837,991	811,740
Mutual funds	200,165	2,875
	$ 1,038,156	$ 823,390
Financial liabilities-current		
Financial liabilities held for trading		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts (a)	$ 19,916	$ -
Convertible options (Note 20)	18,096	91
	$ 38,012	$ 91

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

	Currency	Maturity Date	Notional Amounts (In Thousands)
December 31, 2017			
Buy	NTD/USD	2018.01-2018.11	NTD1,931,361/USD64,703
December 31, 2016			
Buy	NTD/USD	2017.01-2017.10	NTD872,691/USD27,460
Sell	USD/NTD	2017.01	NTD32,883/USD1,033

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

b. Refer to Note 34 for information relating to financial instruments at fair value through profit or loss pledged as security.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Current		
Domestic listed shares and emerging market shares	$ 81,767	$ 330,402
Non-current		
Domestic listed shares and emerging market shares	$ 1,408,272	$ 1,402,581
Unlisted shares - ROC	94,275	60,823
Unlisted shares - other countries	437,502	444,973
Available-for-sale financial assets	$ 1,940,049	$ 1,908,377

Refer to Note 34 for information relating to available-for-sale financial assets pledged as security.

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OVERDUE RECEIVABLES

	December 31	
	2017	2016
Notes receivable		
Notes receivable - operating	$ 1,020,089	$ 967,899
Less: Allowance for impairment loss	(1,492)	(1,341)
	$ 1,018,597	$ 966,558

(Continued)

	December 31	
	2017	2016
Trade receivables		
Trade receivables	$ 1,261,538	$ 1,334,041
Less: Allowance for impairment loss	(3,741)	(3,176)
	$ 1,257,797	$ 1,330,865
Overdue receivables		
Overdue receivables	$ 51,900	$ 57,898
Less: Allowance for impairment loss	(48,900)	(15,399)
	$ 3,000	$ 42,499

(Concluded)

a. Notes receivable and trade receivables

The average credit period of sales of goods was 90 days. No interest was charged on trade receivables. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 365 days because historical experience was that receivables that are past due beyond 365 days are not recoverable. An allowance for impairment loss was recognized against trade receivables between 90 days and 365 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial positions.

For the trade receivables balances that were past due at the end of the reporting period were NT$103,119 thousand and NT$71,328 thousand on December 31, 2017 and 2016, respectively, which are disclosed in the aging analysis below. The Group and its subsidiaries did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts. The Group and its subsidiaries did not hold any collateral or other credit enhancements for these balances. In addition, the Group does not have the legal right to off-set the trade receivables with trade payables from the same counterparty.

The aging of trade receivables that were past due but not impaired was as follows:

	December 31	
	2017	2016
Up to 90 days	$ -	$ -
91-365 days	90,890	56,127
Over 365 days	12,229	15,201
	$ 103,119	$ 71,328

The above aging schedule was based on the number of past due days from the invoice date.

The movements of the allowance for doubtful trade receivables were as follows:

	For the Year Ended December 31	
	2017	2016
Beginning of the year	$ 4,517	$ 7,147
Add: Impairment losses recognized on receivables	1,656	648
Less: Impairment losses reversed	(772)	(3,278)
Less: Amounts written off during the year as uncollectible	(168)	-
End of the year	$ 5,233	$ 4,517

b. Overdue receivables

For the overdue receivable balances that were past due at the end of the reporting period were NT$3,000 thousand and NT$42,499 thousand on December 31, 2017 and 2016, respectively, which are disclosed in the aging analysis below. The Group did not recognize an allowance for impairment loss, because there was no significant change in the credit quality and the amounts. The Group considered the overdue receivables to still be collectable and held collateral for these balances to enhance the collectability. In addition, the Group did not have the legal right to off-set the overdue receivables with trade payables from the same counterparty.

The aging of overdue receivables that were past due but not impaired was as follows:

	December 31	
	2017	2016
Up to 90 days	$ -	$ -
90-365 days	-	7,168
Over 365 days	3,000	35,331
	$ 3,000	$ 42,499

The above aging schedule was based on the number of past due days from the invoice date.

The movements of the allowance for doubtful overdue receivables were as follows:

	For the Year Ended December 31	
	2017	2016
Beginning of the year	$ 15,399	$ 30,179
Add: Impairment losses recognized on receivables	35,486	12,334
Less: Impairment losses reversed	(1,985)	(911)
Less: Amounts written off during the year as uncollectable	-	(24,705)
Less: Amounts recovered from the prior year write-offs	-	(1,498)
End of the year	$ 48,900	$ 15,399

The Group recognized an impairment loss on overdue receivables amounting to NT$48,900 thousand and NT$15,399 thousand as of December 31, 2017 and 2016, respectively. These amounts mainly related to customers that the Group were pursuing legal claims against. The Group carried out a review of the recoverable amount of those overdue receivables and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss. The Group held chattel pledged as collateral over these balances.

The carrying amount of the notes receivable pledged as collateral for borrowings is disclosed in Note 34.

10. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

	December 31	
	2017	**2016**
Amount due from customers for construction contracts		
Construction costs incurred plus recognized profits less recognized losses to date	$ -	$ 105,611
Less: Progress billings	-	(103,266)
Amount due from customers for construction contracts	$ -	$ 2,345

The cost incurred for construction contracts for the years ended December 31, 2017 and 2016 was NT$53 thousand and NT$0 thousand, respectively.

11. INVENTORIES

	December 31	
	2017	**2016**
Finished goods	$ 372,923	$ 361,176
Raw materials	2,376,020	1,864,882
Raw materials in transit	-	37,417
	$ 2,748,943	$ 2,263,475

The allowance for inventory devaluation for the years ended December 31, 2017 and 2016 was NT$10,148 thousand and NT$907 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was NT$7,208,382 thousand and NT$5,484,318 thousand, respectively. The cost of goods sold included an inventory write-down of NT$9,241 thousand and a reversal of inventory write-downs of NT$305,355 thousand. Previous write-downs were reversed as a result of increased selling prices in steel markets.

12. NON-CURRENT ASSETS HELD FOR SALE

Sinpao Investment Company has completed the disposal of associates by using the equity method on March 31, 2016, and the profit from the disposal was NT$102,218 thousand.

13. OTHER FINANCIAL ASSETS

	December 31	
	2017	**2016**
Current		
Time deposits with original maturities of more than 3 months	$ 90,246	$ 70,073

a. The market interest rates of the time deposits with an original maturity of more than 3 months were 0.07%-1.0% and 0.2%-1.2% per annum, respectively, for the years ended December 31, 2017 and 2016.

b. Refer to Note 34 for information relating to other current financial assets pledged as security.

14. SUBSIDIARIES

Subsidiaries Included in the Consolidated Financial Statements

Investor	Investee	Nature of Activities	Proportion of Ownership (%) December 31 2017	Proportion of Ownership (%) December 31 2016
Hsin Kuang Steel Corporation	Hsin Yuan Investment Co., Ltd.	Securities investment	100.00	100.00
	Hsin Ho Fa Metal Co., Ltd.	Sale of metal products for architecture	83.37	83.37
	Sinpao Investment Co., Ltd.	Investment	99.82	99.82
	Hsin Kuang Alga Engineering Co., Ltd.	Manufacture of metal structures and architectural components	68.16	68.16
	Hsin Ching International Co., Ltd.* (Note 29)	Leasing and warehousing	60.00	50.00

* The Company acquired 10% of the outstanding shares of Hsin Ching International Co., Ltd. in February 2017 with controlling interest.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31 2017	December 31 2016
Investments in associates	$ 29,800	$ 12,241
Investments in joint ventures	503,265	27,484
	$ 533,065	$ 39,725

a. Investments in associates

	December 31 2017	December 31 2016
Associates that are not individually material	$ 29,800	$ 12,241

Aggregate information of associates that are not individually material is as follows:

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
The Group’s share of:		
Profit from continuing operations	$ 593	$ 704
Other comprehensive income	-	-
Total comprehensive income for the year	$ 593	$ 704

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

b. Investments in joint ventures

	December 31	
	2017	**2016**
Material joint ventures		
Hsin Ching International Co., Ltd.	$ -	$ 27,484
Mason Metal Industry Co., Ltd.	503,265	-
	$ 503,265	$ 27,484

Because of the execution of upstream and downstream strategic alliance and the reinforcement of the sales status and the added value of various steel products, the Group purchased 25,000 thousand of common stocks of Mason Metal Industry Co., Ltd. at a price of NT$11.4 per share resulting in a total of 50% of shareholder rights and the total purchase price of NT$285,077 thousand, in which the transaction was completed on October 6, 2017. Under the joint venture agreement, the Group can assign three out of six members of the board of directors of Mason Metal Industry Co., Ltd. Therefore, the Group has a significant impact and joint control with the other company over Mason Metal Industry Co., Ltd.

A bargain purchase gain of $211,110 thousand on the acquisition of Mason Metal Industry Co., Ltd. was recognized separately in the statements of comprehensive income.

Refer to Table 5 "Information on Investees" for the nature of activities, principal places of business and countries of incorporation of the joint ventures. All the joint ventures are accounted for using the equity method.

The summarized financial information below represents amounts shown in the joint ventures' consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Hsin Ching International Co., Ltd.

	December 31, 2016
Cash and cash equivalents	$ 4,906
Current assets	$ 54,906
Non-current assets	63
Equity	$ 54,969
Proportion of the Group's ownership	50%
Equity attributable to the Group	$ 27,484
Carrying amount	$ 27,484

	For the Year Ended December 31, 2016
Net loss for the year	$ (31)
Other comprehensive income	-
Total comprehensive loss for the year	$ (31)

Mason Metal Industry Co., Ltd.

	December 31, 2017
Cash and cash equivalents	$ 96,316
Current assets	$ 1,069,540
Non-current assets	285,988
Current liabilities	(307,596)
Non-current liabilities	(432,287)
Equity	$ 615,645
Proportion of the Group's ownership	50%
Equity attributable to the Group	$ 307,823
Provisions	3,570
Gain from bargain purchase	211,110
Other adjustments	(19,238)
Carrying amount	$ 503,265

	For the Period Between October 1 (the Acquisition Date) and December 31, 2017
Operating revenue	$ 472,421
Depreciation and amortization expense	$ 725
Interest income	$ 59
Interest expense	$ 615
Income tax expense	$ 2,812
Net profit for the year	$ 13,539
Other comprehensive income	-
Total comprehensive income for the year	$ 13,539

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Transportation Equipment	Miscellaneous Equipment	Property under Construction and Devices Awaiting Inspection	Total
Cost							
Balance at January 1, 2016	$ 1,824,953	$ 902,307	$ 566,268	$ 121,455	$ 33,782	$ 8,489	$ 3,457,254
Additions	235,747	2,183	18,312	5,238	3,362	13,065	277,907
Disposals	-	(8,244)	(37,252)	(8,205)	(18,569)	-	(72,270)
Reclassified	13,500	200	6,466	8,627	-	(15,381)	13,412
Balance at December 31, 2016	$ 2,074,200	$ 896,446	$ 553,794	$ 127,115	$ 18,575	$ 6,173	$ 3,676,303
Accumulated depreciation and impairment							
Balance at January 1, 2016	$ -	$ 184,504	$ 330,217	$ 82,914	$ 25,197	$ -	$ 622,832
Depreciation expenses	-	24,068	40,060	9,221	1,316	-	74,665
Disposals	-	(3,508)	(27,014)	(8,012)	(15,727)	-	(54,261)
Balance at December 31, 2016	$ -	$ 205,064	$ 343,263	$ 84,123	$ 10,786	$ -	$ 643,236
Carrying amounts at December 31, 2016	$ 2,074,200	$ 691,382	$ 210,531	$ 42,992	$ 7,789	$ 6,173	$ 3,033,067
Cost							
Balance at January 1, 2017	$ 2,074,200	$ 896,446	$ 553,794	$ 127,115	$ 18,575	$ 6,173	$ 3,676,303
Additions	68	2,695	12,674	2,962	1,218	831,094	850,711
Disposals	-	-	(3,892)	(3,504)	(86)		(7,482)
Reclassified	306,186	558	17,413	11,752	-	(307,217)	28,692
Balance at December 31, 2017	$ 2,380,454	$ 899,699	$ 579,989	$ 138,325	$ 19,707	$ 530,050	$ 4,548,224
Accumulated depreciation and impairment							
Balance at January 1, 2017	$ -	$ 205,064	$ 343,263	$ 84,123	$ 10,786	$ -	$ 643,236
Depreciation expenses	-	23,829	39,029	10,545	1,268	-	74,671
Disposals	-	-	(2,675)	(2,410)	(71)	-	(5,156)
Balance at December 31, 2017	$ -	$ 228,893	$ 379,617	$ 92,258	$ 11,983	$ -	$ 712,751
Carrying amounts at December 31, 2017	$ 2,380,454	$ 670,806	$ 200,372	$ 46,067	$ 7,724	$ 530,050	$ 3,835,473

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Building	
Main buildings	40-55 years
Engineering buildings	3-20 years
Equipment	
Main equipment	5-20 years
Equipment maintenance	3-5 years
Transportation equipment	
Truck and automotive	5-8 years
Stacker	5-9 years
Automotive accessories	3 years
Miscellaneous equipment	
Computer equipment	5 years
Office and engineering equipment	3-10 years

The Group purchased land located in Guanyin of 7,387.13 square meters for operation use from 2005 to 2017. As of December 31, 2017, the carrying amount was NT$53,259 thousand. As the law stipulates, Company shall not have ownership of land registered for agricultural purposes. Thus, the Company shall sign a real estate trust contract with an individual to hold the land.

On November 4, 2014, the Company's board of directors resolved to dispose of a parcel of freehold land located in Taishan and Linkou, which were reclassified to non-current assets held for sale. No impairment loss was recognized on the classification of the land as held for sale. Because the Company cannot complete the sale within 2 years of the classification as held for sale, the land no longer meets the criteria to be so classified and was reclassified to property, plant and equipment. The consolidated financial statements for the periods since the classification as held for sale were amended accordingly. The carrying amount of the land amended was NT$25,222 thousand as of December 31, 2016.

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 34.

17. INVESTMENT PROPERTIES

	Investment Properties - Land	Investment Properties - Buildings	Investment Properties - Machinery and Equipment	Total
Cost				
Balance at January 1, 2016	$ -	$ -	$ -	$ -
Additions	210,306	19,391	9,525	239,222
Reclassified	3,376	29,847	-	33,223
Balance at December 31, 2016	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Accumulated depreciation and impairment				
Balance at January 1, 2016	$ -	$ -	$ -	$ -
Depreciation expenses	-	699	433	1,132
Balance at December 31, 2016	$ -	$ 699	$ 433	$ 1,132
Carrying amounts at December 31, 2016	$ 213,682	$ 48,539	$ 9,092	$ 271,313
Cost				
Balance at January 1, 2017	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Additions	-	-	-	-
Reclassified	-	-	-	-
Balance at December 31, 2017	$ 213,682	$ 49,238	$ 9,525	$ 272,445
Accumulated depreciation and impairment				
Balance at January 1, 2017	$ -	$ 699	$ 433	$ 1,132
Depreciation expenses	-	1,601	866	2,467
Balance at December 31, 2017	$ -	$ 2,300	$ 1,299	$ 3,599
Carrying amounts at December 31, 2017	$ 213,682	$ 46,938	$ 8,226	$ 268,846

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	25 years
Crane equipment	10 years

The determination of fair value was performed by independent qualified professional valuers on March 31, 2017. The evaluation was based on different standards using cost method, comparison and direct capitalization of revenue. After evaluating by the management the Group, the fair value has no significant change since then on December 31, 2017. The management of the Group used the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs on December 31, 2016. The valuation was appraised by reference to market evidence of transaction prices for similar properties. The fair value was as follows:

	December 31	
	2017	**2016**
Fair value	$ 299,637	$ 313,726

The investment properties pledged as collateral for bank borrowing are set out in Note 34.

18. OTHER ASSETS

	December 31	
	2017	**2016**
Current		
Temporary payments	$ 17,028	$ -
Others	207	435
	$ 17,235	$ 435
Non-current		
Refundable deposits	$ 46,362	$ 46,278
Overdue receivables	3,000	42,499
Prepayments for equipment	31,105	5,700
Others	1,382	779
	$ 81,849	$ 95,256

19. BORROWINGS

a. Short-term borrowings

	December 31	
	2017	**2016**
Secured borrowings (Notes 32 and 34)		
Bank loans	$ 500,000	$ 379,550
Letters of credit	530,590	288,958
	1,030,590	668,508
Unsecured borrowings		
Line of credit borrowings (Note 32)	130,000	219,850
Letters of credit	2,319,084	2,506,736
	2,449,084	2,726,586
	$ 3,479,674	$ 3,395,094

The range of weighted average effective interest rates on bank loans was 1.0%-3.1% and 1.2%-2.7% per annum as of December 31, 2017 and 2016, respectively.

b. Short-term bills payable

	December 31	
	2017	2016
Commercial paper (Note 32)	$ 470,000	$ 190,000
Less: Unamortized discount on bills payable	(492)	(226)
	$ 469,508	$ 189,774

Outstanding short-term bills payable were as follows:

December 31, 2017

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral
Commercial paper					
A bank	$ 250,000	$ 316	$ 249,684	1.2%	-
B bank	100,000	92	99,908	1.2%	-
C bank	50,000	65	49,935	1.2%	-
D bank	40,000	4	39,996	1.2%	-
E bank	30,000	15	29,985	1.2%	-
	$ 470,000	$ 492	$ 469,508		

December 31, 2016

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate	Collateral
Commercial paper					
A bank	$ 150,000	$ 157	$ 149,843	1.2%	-
B bank	40,000	69	39,931	1.3%	-
	$ 190,000	$ 226	$ 189,774		

c. Long-term borrowings

	December 31	
	2017	2016
Secured borrowings (Notes 32 and 34)		
Syndicated bank loans - Land Bank of Taiwan (1)	$ 1,600,000	$ 1,600,000
Bank loans - Chang Hwa Bank Sanchungpu Branch (2)	185,500	185,500
Bank loans - Banking Division of Mega Bank (3)	150,000	-
	1,935,500	1,785,500

(Continued)

	December 31	
	2017	2016
Unsecured borrowings (Note 32)		
Bank loans - Chang Hwa Bank Sanchungpu Branch (4)	$ 19,200	$ 36,866
Less: Current portions	(1,017,508)	(210,466)
Syndicated loan fees	(1,962)	(3,342)
Long-term borrowings	$ 935,230	$ 1,608,558

(Concluded)

1) In August 2014 and October and December 2017, the Group acquired syndicated bank loans from Land Bank of Taiwan secured by the Company's freehold land and buildings (refer to Note 34) in the amount of NT$1,000,000 thousand, NT$500,000 thousand and NT$300,000 thousand, respectively, and all will be repayable in August 2019. The grace period of the loans acquired in 2014 was 2.5 years. From the date of expiry of the grace period, the repayment of principal and interest is divided into six installments every six months. The first to the fifth installments are 10% of the outstanding balance of the loan, and the sixth installment shall be all of the remaining outstanding principal and the interest balance.

   The loans acquired in 2017 had a revolving credit line. Interest shall be paid by month, and on the expiry date the loan shall be extended or settled. After 3 years of the first use of the loans, the credit line shall be reduced to 80% of the original credit line and to 60% after 4 years. The outstanding principal and interest shall be settled on the credit line adjustment day, and all of the remaining outstanding principal and interest shall be fully settled at the maturity date of this credit. Currently, the days of the loans are 90 days.

   Under the agreements, the Group's current ratio, net-debt ratio and times interest earned ratio should meet some criteria which were based on the consolidated financial statements of the Group. If the Group breaches the financial ratios specified in the agreements, the Group shall amend the status of its financial ratios to meet the agreed upon ratios within five months from April 1 of the following auditing year, and this will not be considered as breach of the agreement. The Group was in compliance with the syndicated credit facility agreements based on the consolidated financial statements of the Group for the years ended December 31, 2017. The weighted average effective interest rates were both 1.7% per annum in 2017 and 2016.

2) In July 2016 the Group acquired bank loans secured by the Group's freehold land (refer to Note 34) in the amount of NT$185,500 thousand, which will mature in July 2019. Interest shall be paid by month and the principal shall be fully settled at the maturity date of this credit. The weighted average effective interest rates were both 1.6% per annum in 2017 and 2016.

3) In January 2017, the Group acquired bank loans from Banking Division of Mega Bank secured by the Group's freehold land (refer to Note 34) in the amount of NT$150,000 thousand, and will be expired in January 2032. From January of 2018, the repayment of principal is divided into 57 installments every 3 months, with the amount of NT$2,632 thousand per installment. The weighted average effective interest rate was 1.7% per annum in 2017.

4) In August 2016 the Group acquired an unsecured bank loan in the amount of NT$38,400 thousand, which will mature in August 2020. From August 2016, the repayment of principal is divided into sixteen installments and each repayment principal is NT$2,400 thousand. The weighted average effective interest rates were both 2.0% per annum in 2017 and 2016, and paid off NT$7,200 thousand in advance in November 2017.

20. BONDS PAYABLE

	December 31	
	2017	2016
Unsecured domestic convertible bonds - Hsin Kuang 4	$ -	$ 108,418
Unsecured domestic convertible bonds - Hsin Kuang 5	532,148	-
	532,148	108,418
Less: Current portions	-	(108,418)
	$ 532,148	$ -

a. Unsecured domestic convertible bonds - Hsin Kuang 4

As of December 20, 2013, the Company issued 5 thousand 0% NTD denominated unsecured convertible bonds in Taiwan, with an aggregate principal amount of NT$500,000 thousand.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of NT$19. If the Company increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Company's 4th Unsecured Convertible Bond Conversion Method. Conversion may occur at any time between January 20, 2014 and December 10, 2018. The holder can notify the Company 30 days before the expiry of 3 to 4 years from issuance to request the accrued interest based on the denomination of the bonds (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.28% per annum, and the conversion option derivative instruments were measured at fair value through profit or loss.

Movements of the host liability instrument were as follows:

	December 31	
	2017	2016
Proceeds from issuance	$ 500,000	$ 500,000
Equity component	(42,450)	(42,450)
Conversion option derivative instrument	(10,950)	(10,950)
The host liability instrument at date issued	446,600	446,600
Interest charged at an effective interest rate	53,400	48,318
Convertible bonds converted into ordinary shares	(500,000)	(386,500)
The host liability instrument at end of the year	-	108,418
Less: Current portions	-	(108,418)
Denominated unsecured convertible bonds	$ -	$ -

Movements of the conversion option derivative instruments during 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Beginning of the year	$ 91	$ 13,652
Fair value changes loss (gain)	2,395	(5,556)
Converted into ordinary shares	(2,486)	(8,005)
End of the year	$ -	$ 91

b. Unsecured domestic convertible bonds - Hsin Kuang 5

On November 9, 2017, the Company issued 6 thousand units, five-year period of 0% NTD denominated unsecured convertible bonds in Taiwan, with an aggregate principal amount of $601,200 thousand, which was 100.2% of nominal amount.

Each bond entitles the holder to convert it into ordinary shares of the Company at a conversion price of NT$36. If the Company increases its ordinary shares after the bond issuance, the conversion price will be adjusted by Article 11 of the Company's 5th Unsecured Convertible Bond Conversion Method. Conversion may occur at any time between February 10, 2018 and November 9, 2022. The holder can notify the Company 30 days before the expiry of 3 to 4 years from issuance to request the accrued interest based on the denomination of the bonds (the 3-year interest compensation is 3.03%, 4-year interest compensation is 4.06%) and redeem the bonds by cash.

The convertible bonds contained two components: The host liability instrument and the conversion option derivative instrument. The effective interest rate of the host liability on initial recognition was 2.61% per annum, and the conversion option derivative instruments were measured at fair value through profit or loss.

Movements of the host liability instruments were as follows:

	December 31, 2017
Proceeds from issuance	$ 601,200
Equity component	(54,892)
Conversion option derivative instrument	(15,551)
The host liability instrument at date issued	530,757
Interest charged at an effective interest rate	1,391
The host liability instrument at end of the year	532,148
Less: Current portions	-
Denominated unsecured convertible bonds	$ 532,148

Movements of the conversion option derivative instrument during 2017 were as follows:

	December 31, 2017
Issued date	$ 15,551
Fair value changes loss	2,545
End of the year	$ 18,096

21. NOTES PAYABLE AND TRADE PAYABLES

	December 31	
	2017	**2016**
Notes payable		
Operating	$ 424,604	$ 420,766
Trade payables		
Operating	$ 9,660	$ 68,644

22. OTHER PAYABLES

	December 31	
	2017	**2016**
Interest payable	$ 12,971	$ 13,073
Payables for salaries and bonuses	116,620	88,301
Other payables	2,648	104,072
Others	27,398	30,062
	$ 159,637	$ 235,508

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company, Hsin Yuan Company, Hsin Ho Fa Company and Hsin Kuang Alga Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The defined benefit plans adopted by the parent company only in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

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

	December 31	
	2017	2016
Present value of defined benefit obligation	$ 48,730	$ 39,082
Fair value of plan assets	(20,950)	(19,390)
Net defined benefit liabilities	$ 27,780	$ 19,692

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2016	$ 37,816	$ (605)	$ 37,211
Service cost			
Current service cost	351	-	351
Net interest expense (income)	473	(17)	456
Recognized in profit or loss	824	(17)	807
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(84)	(84)
Actuarial loss - changes in demographic assumptions	932	-	932
Actuarial loss - changes in financial assumptions	402	-	402
Actuarial loss - experience adjustments	2,493	-	2,493
Recognized in other comprehensive income	3,827	(84)	3,743
Contributions from the employer	-	(22,069)	(22,069)
Benefits paid	(3,385)	3,385	-
Balance at December 31, 2016	39,082	(19,390)	19,692
Service cost			
Current service cost	288	-	288
Past service cost	5,845	-	5,845
Net interest expense (income)	440	(228)	212
Recognized in profit or loss	6,573	(228)	6,345
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	51	51
Actuarial loss - changes in demographic assumptions	928	-	928
Actuarial loss - changes in financial assumptions	464	-	464
Actuarial loss - experience adjustments	2,090	-	2,090
Recognized in other comprehensive income	3,482	51	3,533
Contributions from the employer	-	(1,790)	(1,790)
Benefits paid	(407)	407	-
Balance at December 31, 2017	$ 48,730	$ (20,950)	$ 27,780

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

	For the Year Ended December 31	
	2017	2016
Operating costs	$ 193	$ 244
Selling and marketing expenses	$ 6,103	$ 468
General and administrative expenses	$ 49	$ 95

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2017	2016
Discount rates	1.000%	1.125%
Expected rates of salary increase	1.500%	1.500%

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

	December 31	
	2017	2016
Discount rates		
0.25% Increase	$ (963)	$ (847)
0.25% Decrease	$ 998	$ 877
Expected rates of salary increase		
0.25% Increase	$ 973	$ 856
0.25% Decrease	$ (944)	$ (830)

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

	December 31	
	2017	2016
Expected contributions to the plans for the next year	$ 4,925	$ 1,678
The average duration of the defined benefit obligation	8 years	8.7 years

24. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands)	360,000	360,000
Shares authorized	$ 3,600,000	$ 3,600,000
Number of shares issued and fully paid (in thousands)	306,194	299,188
Shares issued	$ 3,061,937	$ 2,991,876

The shares issued had a par value of NT$10. Each share entitles the rights to dividends and to vote.

For the year ended December 31, 2016, the shares increased due to the employees' exercise of their employee share options, and conversion of bonds into ordinary shares.

b. Capital surplus

	December 31	
	2017	2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	$ 767,865	$ 962,237
Treasury share transactions	7,754	7,754
Conversion of bonds	-	9,637
May be used to offset a deficit only (2)		
Changes in percentage of ownership interest in subsidiaries	528	531
May not be used for any purpose (3)		
Employee share options	36,647	36,647
Share warrants	54,892	-
	$ 867,686	$ 1,016,806

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

2) Such capital surplus arises from the effects of changes in ownership interests in subsidiaries resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of subsidiaries accounted for by using the equity method.

3) Such capital surplus may not be used for any purpose.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 15, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors before and after the amendment, refer to Employees compensation and remuneration of directors and supervisors in Note 25-g.

To ensure the interests of shareholders and the Company's sustainable development, the Company adopts a balanced dividends policy.

The dividends payment principle shall not be less than 30% of the remaining of the following items: A profit in a fiscal year with the provisions of the preceding paragraph utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside a special reserve, distributing remuneration of the directors and supervisors and bonus of employees. Among the dividends payment, no less than 30% shall be paid in cash and no more than 70% shall be distributed as stocks. In accordance with the principle on dividends payment as set out in the preceding paragraph, the Company shall, in accordance with the actual operating, finance and business conditions and the actual profit of the year, consider the capital budget plan for the following year, determine the most appropriate dividend policy, after implementing the decisions mandated by resolutions in the shareholders' meeting.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reverse from a special reserve by the Company.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on June 15, 2017 and June 15, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For the Year Ended December 31		For the Year Ended December 31	
	2016	2015	2016	2015
Legal reserve	$ 74,776	$ -	$ -	$ -
Cash dividends	306,194	-	1.0	-
Cash dividends from capital surplus	244,955	165,976	0.8	0.6

The appropriation of earnings for 2017 was proposed by the Company's board of directors on March 13, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 106,623	$ -
Cash dividends	459,290	1.50
Cash dividends distributed from capital surplus	153,097	0.50

The appropriation of earnings for 2017 is subject to the resolution in the shareholders' meeting to be held on June 19, 2018.

d. Special reserves

	For the Year Ended December 31	
	2017	2016
Beginning at January 1	$ 231,141	$ -
Appropriation in respect of		
Debit to other equity items	-	231,141
Credit from other equity items	(211,734)	-
Balance at December 31	$ 19,407	$ 231,141

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 9,034	$ 17,523
Exchange differences on translating the financial statements of foreign operations	(10,373)	(8,489)
Balance at December 31	$ (1,339)	$ 9,034

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ (28,441)	$ (499,891)
Unrealized gain arising on revaluation of available-for-sale financial assets	58,600	471,450
Balance at December 31	$ 30,159	$ (28,441)

f. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 28,244	$ 30,172
Attributable to non-controlling interests:		
Dividends distributed by subsidiaries	(914)	(1,938)
Share of profit for the year	7,306	2,010
Share of other comprehensive loss of associates accounted for using the equity method	(32)	(40)
Acquisition of non-controlling interests in subsidiaries (Note 29)	21,987	(1,960)
Changes of non-controlling interests	150,800	-
Balance at December 31	$ 207,391	$ 28,244

25. NET PROFIT AND OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS

Net Profit from Continuing Operations:

a. Other operating income and expenses

	For the Year Ended December 31	
	2017	2016
Net gain on evaluation of financial assets	$ 226,260	$ 13,272
Net (loss) gain on evaluation of financial liabilities	(24,856)	5,556
Net loss on disposal of available-for-sale financial assets	(55,796)	-
Impairment loss on available-for-sale financial assets	(3,860)	(1,715)
Dividends	83,483	61,876
	$ 225,231	$ 78,989

b. Other income

	For the Year Ended December 31	
	2017	2016
Interest income - bank deposits	$ 958	$ 985
Rental income	10,643	5,432
Others	1,817	5,312
	$ 13,418	$ 11,729

c. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Net loss on disposal of property, plant and equipment	$ (208)	$ (3,926)
(Loss) gain on disposal of associates	(10,037)	102,218
Net foreign exchange gains	108,272	42,603
	$ 98,027	$ 140,895

d. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest on bank loans	$ 117,552	$ 85,796
Interest on convertible bonds	1,495	8,901
Less: Amounts included in the cost of qualifying assets	(7,558)	(565)
	$ 111,489	$ 94,132

Information about capitalized interest was as follows:

	For the Year Ended December 31	
	2017	2016
Capitalized interest	$ 7,558	$ 565
Capitalization rate	2.5%	2.5%

e. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 74,671	$ 74,665
Investment properties	2,467	1,132
Long-term prepayments	740	1,031
	$ 77,878	$ 76,828
An analysis of depreciation by function		
Operating costs	$ 62,682	$ 63,443
Operating expenses	14,456	12,354
	$ 77,138	$ 75,797
An analysis of amortization by function		
Operating costs	$ 722	$ 701
Operating expenses	18	330
	$ 740	$ 1,031

f. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term benefits	$ 245,871	$ 233,909
Post-employment benefits (Note 23)		
Defined contribution plans	5,255	4,871
Defined benefit plans	6,345	807
	$ 257,471	$ 239,587
An analysis of employee benefits expense by function		
Operating costs	$ 94,555	$ 83,422
Operating expenses	162,916	156,165
	$ 257,471	$ 239,587

g. Employees' compensation and remuneration of directors and supervisors for 2017 and 2016

The Company accrued employees' compensation and remuneration of directors and supervisors at the rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Company's board of directors on March 13, 2018 and March 14, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	3%	3%
Remuneration of directors and supervisors	3%	3%

Amount

	For the Year Ended December 31			
	2017		2016	
	Cash	Shares	Cash	Shares
Employees' compensation	$ 38,309	$ -	$ 25,876	$ -
Remuneration of directors and supervisors	38,309	-	25,876	-

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

Information on employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

h. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains	$ 242,688	$ 154,104
Foreign exchange losses	(134,416)	(111,501)
	$ 108,272	$ 42,603

26. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	$ 102,613	$ 11,514
Income tax on unappropriated earnings	36,538	-
Adjustments for prior years	63	(8)
	139,214	11,506
Deferred tax		
In respect of the current year	(3,282)	49,990
Income tax expense recognized in profit or loss	$ 135,932	$ 61,496

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

	For the Year Ended December 31	
	2017	2016
Profit before income tax	$ 1,209,464	$ 811,280
Income tax expense calculated at the statutory rate	$ 205,609	$ 137,918
Nondeductible expenses in determining taxable income	(77,232)	9,487
Tax-exempt income	(27,298)	(16,304)
Unpaid taxable income	-	(7)
Additional income tax under the Alternative Minimum Tax Act	1,073	-
Income tax on unappropriated earnings	36,538	-
Unrecognized loss carryforwards	1,022	779
Used loss carryforwards	(8,091)	(63,718)
Unrecognized deductible temporary differences	3,063	9,848
Effects of different tax rates of group entities operating in other jurisdictions	1,185	(16,499)
Adjustments for prior years' tax	63	(8)
Income tax expense recognized in profit or loss	$ 135,932	$ 61,496

The applicable corporate income tax rate used by the group entities in the ROC is 17%.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to

5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by 2,382 thousand and 810 thousand, respectively, in 2018.

As the status of the 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	**2016**
Deferred tax		
In respect of the current year:		
Translation of foreign operations	$ (2,125)	$ 1,850
Remeasurement on defined benefit plans	(605)	(636)
	(2,730)	1,214
Total income tax recognized in other comprehensive income	$ (2,730)	$ 1,214

c. Current tax assets and liabilities

	December 31	
	2017	**2016**
Current tax liabilities		
Income tax payable	$ 133,329	$ 11,157

d. Deferred tax assets and liabilities

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

	For The Year Ended December 31, 2017			
	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Compre-hensive Income**	**Closing Balance**
Deferred tax assets				
Temporary differences				
Write-downs of inventory	$ 75	$ 338	$ -	$ 413
FVTPL financial assets	-	3,386	-	3,386
Convertible bonds	-	432		432
Net loss (gain) on foreign currency exchange	4,188	(4,188)	-	-
Defined benefit obligation	2,366	775	605	3,746
Allowance for impaired receivables	-	5,247		5,247
Exchange differences on translating the financial statements of foreign operations	-	-	274	274
	$ 6,629	$ 5,990	$ 879	$ 13,498

(Continued)

	For The Year Ended December 31, 2017			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ 1,475	$ (1,475)	$ -	$ -
Convertible bonds	407	(407)	-	-
Exchange differences on translating the financial statements of foreign operations	1,851	-	(1,851)	-
Net gain on foreign currency exchange	-	4,590	-	4,590
	$ 3,733	$ 2,708	$ (1,851)	$ 4,590

(Concluded)

	For The Year Ended December 31, 2016			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Reversal of write-downs of inventories	$ 51,474	$ (51,399)	$ -	$ 75
FVTPL financial assets	(9,586)	9,586	-	-
Convertible bonds	537	(537)	-	-
Net loss (gain) on foreign currency exchange	4,306	(118)	-	4,188
Defined benefit obligation	5,345	(3,615)	636	2,366
Allowance for impaired receivables	2,029	(2,029)	-	-
	$ 54,105	$ (48,112)	$ 636	$ 6,629
Deferred tax liabilities				
Temporary differences				
FVTPL financial assets	$ 4	$ 1,471	$ -	$ 1,475
Convertible bonds	-	407	-	407
Exchange differences on translating the financial statements of foreign operations	-	-	1,851	1,851
	$ 4	$ 1,878	$ 1,851	$ 3,733

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	For The Year Ended December 31	
	2017	2016
Loss carryforwards		
Expire in 2020	$ 2,174	$ 2,174
Expire in 2021	4,143	4,143
Expire in 2022	2,192	2,192
Expire in 2024	5,185	5,185
Expire in 2025	3,362	11,604
Expire in 2026	777	779
Expire in 2027	1,007	-
	$ 18,840	$ 26,077
Deductible temporary differences		
Write-downs of inventory	$ -	$ 80
Net loss on foreign currency exchange	-	31
Share of unrealized income of foreign subsidiaries	(2,047)	(3,223)
Impairment loss on available-for-sale financial assets	23,365	22,708
	$ 21,318	$ 19,596

f. Information about unused loss carryforwards and tax exemptions

Loss carryforwards as of December 31, 2017 comprised:

Name of Associate	Year of Loss	Unused Amount	Expiry Year
Hsin Kuang Alga Engineering Co., Ltd.	2010	$ 12,791	2020
	2011	24,367	2021
	2012	12,896	2022
	2014	30,498	2024
	2015	19,776	2025
	2016	4,568	2026
	2017	5,921	2027
		$ 110,817	

As of December 31, 2017, profit attributable to the following expansion projects were exempt from income tax for a 5-year period:

Expansion of Construction Project	Tax-exemption Period
Production of metal products manufacturing investment plan	January 1, 2013-December 31, 2017

g. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated on and after January 1, 1998	$ 1,638,702 (Note)	$ 744,667
Shareholder-imputed credits account ("ICA")	$ 134,109 (Note)	$ 101,093

	For the Year Ended December 31	
	2017 (Expected)	2016
Creditable ratio for distribution of earnings	Note	22.35%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

g. Income tax assessments

The tax returns through 2015 and income tax on unappropriated earnings through 2014 have been assessed by the tax authorities.

27. EARNINGS PER SHARE

Net Profit for the Year

	For the Year Ended December 31	
	2017	2016
Profit for the period used in the computation of basic earnings per share	$ 1,066,226	$ 747,774
Effect of dilutive ordinary shares:		
Interest on convertible bonds (after tax)	1,155	7,388
Earnings used in the computation of diluted earnings per share	$ 1,067,381	$ 755,162

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

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in the computation of basic earnings per share	305,740	279,725
Effect of potentially dilutive ordinary shares:		
Convertible bonds	16,667	7,006
Employees' compensation or bonuses issued to employees	1,431	1,198
Weighted average number of ordinary shares used in the computation of diluted earnings per share	323,838	287,929

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

28. SHARE-BASED PAYMENT ARRANGEMENTS

Employee Share Option Plan of the Group

Qualified employees of the Company and its subsidiaries were granted 2,500 options in March 2011. Each option entitles the holder to subscribe for one thousand ordinary shares of the Company. The options granted were valid for 5 years and exercisable at 40% after the second anniversary, at 70 % after the third anniversary and at 100 % after the fourth anniversary from the grant date. The options were granted at an exercise price equal to the closing price of the Company's ordinary shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's capital surplus, the exercise price is adjusted accordingly.

The Group did not issue additional employee share options for the years ended December 31, 2017 and 2016, and all of the issued employee share options were exercised during 2016.

Information on employee share options was as follows:

	For the Year Ended December 31, 2016	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance at January 1	1,134	$15.25
Options forfeited	(146)	-
Options exercised	(988)	14.40
Balance at December 31	-	
Options exercisable, end of year	-	
Weighted-average fair value of options granted (NT$)	$ -	

29. BUSINESS COMBINATIONS

a. Subsidiaries acquired

Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
Hsin Ching International Co., Ltd.	Leasing and warehousing	February 2017	Originally held 50%, now increase to 60%	$ 5,500

b. Consideration transferred

	Hsin Ching International Co., Ltd.
Cash	$ 5,500

c. Assets acquired and liabilities assumed at the date of acquisition

	Hsin Ching International Co., Ltd.
Current assets	
Cash and cash equivalents	$ 4,906
Financial assets at fair value through profit or loss - current	50,000
Non-current assets	
Other	63
	$ 54,969

d. Non-controlling interests

The non-controlling interest (a 40% ownership interest in Hsin Ching International Co., Ltd.) recognized at the acquisition date was measured by reference to the fair value of the non-controlling interest and amounted to $21,987 thousand.

e. Goodwill recognized on acquisition

	Hsin Ching International Co., Ltd.
Consideration transferred	$ 5,500
Plus: Fair value of interests owned previously	27,482
Plus: Non-controlling interests (40% in Hsin Ching International Co., Ltd.)	21,987
Less: Fair value of identifiable net assets acquired	(54,969)
Goodwill recognized on acquisition	$ -

The Group originally held 50% interests in Hsin Ching International Co., Ltd. and had joint control and right to apply equity method on net assets with other companies. After acquiring 10% non-controlling interests in Hsin Ching International Co., Ltd., the Group has 60% interests and the substantive ability to lead Hsin Ching International Co., Ltd.

f. Net cash outflow on acquisition of subsidiaries

	Hsin Ching International Co., Ltd.
Consideration paid in cash	$ 5,500
Less: Cash and cash equivalent balances acquired	(4,906)
	$ 594

30. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In January and August 2016, the Group subscribed for additional new shares of Hsin Ho Fa Metal Co., Ltd. at a percentage different from their existing ownership percentage, increasing their continuing interests from 81.96% to 83.37%.

The above transactions were accounted for as equity transactions, since the Group did not change impact on control over the subsidiary.

31. CAPITAL MANAGEMENT

The Group manage their capital to ensure to be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy has remained unchanged over the past 5 years.

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

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

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

32. FINANCIAL INSTRUMENTS

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

The management believes that the carrying amounts of financial assets and liabilities that are not measured at fair value approximate their fair values:

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Other financial assets - current	$ 90,246	$ 90,246	$ 70,073	$ 70,073
Other loans and receivables	3,089,572	3,089,572	3,008,075	3,008,075
Financial liabilities				
Financial liabilities measured at amortized cost:				
Bank loans (including current portions)	5,432,412	5,432,412	5,214,118	5,214,118
Short-term bills payable	469,508	469,508	189,774	189,774
Trade and other payables	593,901	593,901	724,918	724,918
Convertible bonds	532,148	532,148	108,418	108,418

The methods and assumptions used by the Group for estimating financial instruments not measured at fair value are as follows:

1) The fair value of financial instruments included cash and cash equivalents, trades receivables, other receivables - loans receivable, overdue receivables, trade payables, other financial assets, short-term borrowings, and short-term bills payable, is estimated using the carrying amount at the end of the reporting period because the maturity date is close to the reporting date or the payment price is close to the carrying amount.

2) The fair value of long-term loans is determined using the discounted cash flow. Future cash flows are discounted at a long-term borrowing rate of the Group. The Group accounted for the carrying amount of the long-term loans at the end of the reporting period as their fair values.

3) The fair value of the liability component of convertible bonds is estimated using an amortized cost basis under the effective interest method, and the conversion options component of the convertible bonds is recognized at fair value. The fair value of the liability component of the convertible bonds is recognized at the carrying amount at the end of the reporting period.

b. Financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Non-derivative financial assets held for trading	$ 1,038,156	$ -	$ -	$ 1,038,156
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,490,039	$ -	$ -	$ 1,490,039
Unlisted securities - ROC				
Equity securities	-	-	94,275	94,275
Unlisted securities - other countries				
Equity securities	-	-	437,502	437,502
	$ 1,490,039	$ -	$ 531,777	$ 2,021,816
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 38,012	$ -	$ 38,012

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets	$ -	$ 8,775	$ -	$ 8,775
Non-derivative financial assets held for trading	814,615	-	-	814,615
	$ 814,615	$ 8,775	$ -	$ 823,390
Available-for-sale financial assets				
Securities listed in ROC				
Equity securities	$ 1,732,983	$ -	$ -	$ 1,732,983
Unlisted securities - ROC				
Equity securities	-	-	60,823	60,823
Unlisted securities - other countries				
Equity securities	-	-	444,973	444,973
	$ 1,732,983	$ -	$ 505,796	$ 2,238,779
Financial liabilities at FVTPL				
Derivative financial liabilities	$ -	$ 91	$ -	$ 91

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

	For the Year Ended December 31	
	2017	2016
Beginning of the year	$ 505,796	$ 422,769
Recognized in profit or loss (included in other operating income and expenses)		
Unrealized	(3,860)	(1,715)
	(7,470)	-
Purchases	47,729	97,192
Sales (included in shares return of investments)	(10,418)	(12,450)
End of the year	$ 531,777	$ 505,796

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates discounted at a rate that reflects the credit risk of various counterparties.
Derivatives - conversion option component of convertible bonds	The value of the bonds payable and redemption and put options is estimated based on the binomial CB pricing model and historical volatility, risk-free interest rate, discount rate and liquidity risk at the end of the reporting period.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of unlisted equity securities - ROC were determined using the market approach. In this approach, the fair value is appraised based on the selling price of similar items, such as assets, liabilities, or the groups of assets and liabilities. The significant unobservable factors used are describes below, an increase in long-term revenue growth rates, long-term pre-tax operating margin, a decrease in the weighted average cost of capital, or the discount for lack of marketability used in isolation would result in increases in the fair values.

c. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Fair value through profit or loss (FVTPL) - held for trading	$ 1,038,156	$ 823,390
Loans and receivables (1)	3,089,572	3,008,075
Available-for-sale financial assets	2,021,816	2,238,779
Financial liabilities		
Fair value through profit or loss (FVTPL) - held for trading	38,012	91
Amortized cost (2)	7,027,969	6,237,228

1) The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, and overdue receivables.

2) The balance includes financial liabilities measured at amortized cost, which comprise short-term and long-term loans, short-term bills payable, trade and other payables, and bonds issued.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, derivative financial instruments, notes receivable, trade receivables, overdue receivables, short-term bills payable, notes payables, trade payables, other payables, bonds payable and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Group's activities exposed them primarily to the financial risks of changes in foreign currency exchange rates (see "a. foreign currency risk" below) and interest rates (see "b. interest rate risk" below). The Group entered into a variety of derivative financial instruments to manage their exposure to foreign currency risk and interest rate risk, including:

a) Foreign exchange forward contracts to hedge the exchange rate risk arising on the import and export of steel plates;

b) Interest rate swaps to mitigate the risk of rising interest rates.

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

a) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) were as follows:

	December 31	
	2017	**2016**
Assets		
USD	$ 117,394	$ 98,078
RMB	-	67,525
Liabilities		
USD	1,887,116	2,042,924
JPY	-	7,014
RMB	-	103,514

Sensitivity analysis

The Group were mainly exposed to USD, JPY, RMB, and EUR.

The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss	$ 17,708 (i)	$ 19,479 (i)

	JPY Impact	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss	$ - (ii)	$ 71 (ii)

	RMB Impact			
	For the Year Ended December 31			
	2017		2016	
Profit or loss	$ -	(iii)	$ 336	(iii)

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

ii. This was mainly attributable to the exposure outstanding on JPY other receivables, which were not hedged at the end of the reporting period.

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

The Group's sensitivity to foreign currency increased during the current year mainly due to the accession purchases which resulted in higher USD letters of credit.

In management's opinion, sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

b) Interest rate risk

The Group were exposed to interest rate risk because group entities of the Group borrowed funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings and using interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and the defined risk appetite, ensuring that the most cost-effective hedging strategies are applied.

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

	December 31	
	2017	2016
Cash flow interest rate risk		
Financial assets	$ 380,367	$ 351,604
Financial liabilities	5,901,920	5,403,892

Sensitivity analysis

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

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2017 and 2016 would decrease/increase by NT$57,746 thousand and NT$42,034 thousand, respectively, which was mainly a result of the changes in the variable interest rate bank deposits and loans.

c) Other price risk

The Group was exposed to equity price risk through their investments in listed equity securities. The Group have appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for years ended December 31, 2017 and 2016 would have increased/decreased by NT$10,348 thousand and NT$8,255 thousand, respectively, as a result of the changes in the fair value of held-for-trading investments, and the pre-tax other comprehensive income for the years ended December 31, 2017 and 2016 would increase/decrease by NT$15,051 thousand and NT$17,576 thousand, respectively, as a result of the changes in the fair value of available-for-sale shares.

The Group's sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.

2) Credit risk

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

In order to minimize credit risk, management of the Group have delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The Group's trade receivables are from a large number customers. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

The Group did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The concentration of credit risk to any other counterparty did not exceed 10% of the gross monetary assets of the Group at any time during 2017 and 2016.

The Group's concentration of credit risk by geographical locations was mainly in Taiwan, which accounted for 90% and 92% of the total trade receivable as of December 31, 2017 and 2016, respectively.

The credit risk on derivatives was limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

3) Liquidity risk

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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's short, medium and long-term funding and liquidity management requirements. The Group manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and continuously monitoring forecasted and actual cash flows as well as matching the maturity profiles of financial assets and liabilities. As of December 31, 2017 and 2016, the Group have available unutilized short-term bank loan facilities of NT$5,827,452 thousand and NT$5,306,912 thousand.

a) Liquidity and interest risk rate tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed upon repayment periods. The tables has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows.

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

December 31, 2017

	Weighted-Average Effective Interest Rate (%)	**On Demand or Less Than 1 Month**	**1-3 Months**	**3 Months to 1 Year**	**1-5 Years**	**5+ Years**
Non-derivative financial liabilities						
Non-interest bearing	-	$ 71,282	$ 349,926	$ 164,338	$ 7,860	$ 495
Variable interest rate liabilities	1.9	719,779	1,499,066	2,745,884	839,823	97,368
		$ 791,061	$ 1,848,992	$ 2,910,222	$ 847,683	$ 97,863

December 31, 2016

	Weighted-Average Effective Interest Rate (%)	**On Demand or Less Than 1 Month**	**1-3 Months**	**3 Months to 1 Year**	**1-5 Years**	**5+ Years**
Non-derivative financial liabilities						
Non-interest bearing	-	$ 237,200	$ 254,441	$ 224,064	$ 5,385	$ 954
Variable interest rate liabilities	1.73	653,333	807,995	2,330,665	1,611,900	-
		$ 890,533	$ 1,062,436	$ 2,554,729	$ 1,617,285	$ 954

The following table details the Group's expected maturity for some of its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis. In order to understand the liquidity risk management of the Group on the basis of net assets and net liabilities, the following information is necessary for non-derivative financial assets:

December 31, 2017

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing	-	$ 1,185,495	$ 891,520	$ 194,126	$ 2,757	$ 3,000
Variable interest rate assets	0.30	300,434	67,210	12,723	-	-
		$ 1,485,929	$ 958,730	$ 206,849	$ 2,757	$ 3,000

December 31, 2016

	Weighted-Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
Non-derivative financial assets						
Non-interest bearing	-	$ 1,213,062	$ 972,457	$ 142,587	$ 9,470	$ 3,000
Variable interest rate assets	0.28	281,530	40,511	29,562	-	-
		$ 1,494,542	$ 1,012,968	$ 172,149	$ 9,470	$ 3,000

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31	
	2017	2016
Bank loan facilities expired on 2019 which may be extended upon mutual agreement:		
Amount used	$ 5,871,936	$ 5,403,892
Amount unused	6,403,914	6,213,388
	$ 12,275,850	$ 11,617,280

33. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related parties and their relationship with the Company:

Related Party	Relationship with the Company
Hsin Kuang Alga Engineering Co., Ltd.	Subsidiary
Mason Metal Industry Co., Ltd.	Joint venture

b. Sale of goods

Related Party Category/Name	For the Year Ended December 31 2017	2016
Joint venture		
Mason Metal Industry Co., Ltd.	$ 8,647	$ -

c. Purchases of goods and operating costs

Related Party Category/Name	For the Year Ended December 31 2017	2016
Joint venture		
Mason Metal Industry Co., Ltd.	$ 1,935	$ -

The Group’s purchase and payment terms and conditions to related parties were comparable to unrelated parties.

d. Receivables from related parties (excluding loans to related parties)

Related Party Category/Name	For the Year Ended December 31 2017	2016
Joint venture		
Mason Metal Industry Co., Ltd.	$ 9,079	$ -

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2017 and 2016, no impairment loss was recognized for trade receivables from the related parties.

e. Payables to related parties

Related Party Category/Name	For the Year Ended December 31 2017	2016
Joint venture		
Mason Metal Industry Co., Ltd.	$ 2,032	$ 1,060

The outstanding trade payables from related parties are unsecured and will be paid in cash.

f. Endorsements and guarantees

Related Party Category/Name	For the Year Ended December 31 2017	2016
Subsidiaries		
Hsin Kuang Alga Engineering Co., Ltd.		
Amount endorsed	$ 7,400	$ 7,400
Amount utilized	7,400	7,400

g. Compensation of key management personnel

The amount of the remuneration of directors and key management personnel were as follows:

	For the Year Ended December 31 2017	2016
Short-term employee benefits	$ 81,770	$ 39,466

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

34. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings and lease guarantees:

	December 31 2017	2016
Notes receivable	$ 257,000	$ 225,140
Financial assets at fair value through profit or loss - current	63,600	52,318
Pledge deposits (classified as other financial assets - current)	90,246	65,804
Available-for-sale financial assets - non-current	235,125	234,175
Freehold land	946,406	951,044
Buildings, net	320,792	332,768
Machinery and equipment, net	195,959	-
Miscellaneous equipment, net	31,791	-
	$ 2,140,919	$ 1,861,249

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2017 and 2016 were as follows:

Significant Commitments

a. As of December 31, 2017 and 2016, unused letters of credit for purchases of raw materials and machinery and equipment amounted to were as follows:

	December 31	
	2017	**2016**
TWD	$ 127,639	$ 248,882
USD	13,167	41,620
JPY	-	20,900

b. Unrecognized commitments were as follows:

	December 31	
	2017	**2016**
Acquisition of property, plant and equipment	$ 61,976	$ 13,073

36. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 5,966	29.76 (USD:TWD)	$ 177,549
Financial liabilities			
Monetary items			
USD	63,368	29.76 (USD:TWD)	$ 1,885,821

December 31, 2016

	Foreign Currencies	Exchange Rate		Carrying Amount
Financial assets				
Monetary items				
USD	$ 3,822	32.25	(USD:TWD)	$ 122,870
EUR	106	33.9	(EUR:TWD)	3,822
JPY	61	0.2756	(JPY:TWD)	16
RMB	33,257	4.77	(RMB:TWD)	158,612
				$ 285,320
Financial liabilities				
Monetary items				
USD	63,346	32.25	(USD:TWD)	$ 2,042,924
JPY	25,451	0.2756	(JPY:TWD)	7,014
RMB	19,728	4.99	(RMB:TWD)	103,514
				$ 2,153,452

37. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others: (Table 1)

2) Endorsements/guarantees provided: (Table 2)

3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): (Table 3)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: (N/A)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital: (N/A)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: (N/A)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: (N/A)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: (N/A)

9) Trading in derivative instruments: (Note 7)

10) Other: Intercompany relationships and significant intercompany transactions (Table 4)

11) Information on investees: (Table 5)

b. Information on investments in mainland China

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

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

38. SEGMENT INFORMATION

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

- Steel:

  - direct sales
  - manufacturing sales

- Investments.

a. Segments revenue and results

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

	Steel - Direct Sales	**Steel - Manufact-uring Sales**	**Construction Revenue**	**Investments**	**Total**
For the year ended December 31, 2017					
Revenue from external customers	$ 5,312,721	$ 2,958,549	$ 740	$ 79,902	$ 8,351,912
Inter-segment revenue	4,625	-	-	-	4,625
Segment revenue	5,317,346	2,958,549	740	79,902	8,356,537
Eliminations	(4,625)	-	-	-	(4,625)
Consolidated revenue	$ 5,312,721	$ 2,958,549	$ 740	$ 79,902	$ 8,351,912
Segment income	$ 538,615	$ 498,247	$ -	$ 76,937	$ 1,113,799
Share of profits of associates accounted for using the equity method					3,873
Rental income					10,643
Interest income					958
Loss on disposal of property, plant and equipment					(208)
Gain (loss) on disposal of associates					(10,037)
Net foreign exchange (gains) losses					108,272
Gain (loss) on evaluation of financial assets					201,404

(Continued)

	Steel - Direct Sales	Steel - Manufact-uring Sales	Construction Revenue	Investments	Total
Loss on disposal of available-for-sale financial assets					$ (55,796)
Impairment loss on available-for sale financial assets					(3,860)
Allocation of central administration costs and directors' salaries					(342,688)
Finance costs					(111,489)
Dividends					83,483
Profit before tax (continuing operations)					$ 1,209,464
For the year ended December 31, 2016					
Revenue from external customers	$ 4,022,235	$ 2,375,870	$ -	$ 13,581	$ 6,411,686
Inter-segment revenue	174,255	-	-	-	174,255
Segment revenue	4,196,490	2,375,870	-	13,581	6,585,941
Eliminations	(174,255)	-	-	-	(174,255)
Consolidated revenue	$ 4,022,235	$ 2,375,870	$ -	$ 13,581	$ 6,411,686
Segment income	$ 740,408	$ 173,379	$ -	$ 3,202	$ 916,989
Share of profits of associates accounted for using the equity method					688
Rental income					5,432
Interest income					985
Loss on disposal of property, plant and equipment					(3,926)
Gain (loss) on disposal of associates					102,218
Net foreign exchange (gains) losses					42,603
Gain (loss) on evaluation of financial assets					18,828
Impairment loss on available-for sale financial assets					(1,715)
Allocation of central administration costs and directors' salaries					(238,566)
Finance costs					(94,132)
Dividends					61,876
					(Continued)
Profit before tax (continuing operations)					$ 811,280

(Concluded)

The segments revenue reported above is generated from transactions with external customer.

b. Segment total assets and liabilities

	December 31	
	2017	**2016**
Segment assets		
From continuing operations		
Steel - direct sales	$ 7,843,609	$ 5,874,920
Steel - manufacturing sales	1,497,718	1,293,153
Investments	2,939,145	3,806,403
Total segment assets	12,280,472	10,974,476
Unallocated	1,537,766	946,680
Consolidated total assets	$ 13,818,238	$ 11,921,156
Segment liabilities		
From continuing operations		
Steel - direct sales	$ 4,230,478	$ 3,268,494
Steel - manufacturing sales	811,548	681,389
Investments	1,914,419	1,881,814
Total segment assets	6,956,445	5,831,697
Unallocated	383,464	516,522
Consolidated total liabilities	$ 7,339,909	$ 6,348,219

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

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

2) All liabilities were allocated to reportable segments other than borrowings, other financial liabilities, current and deferred tax liabilities. Liabilities for which reportable segments are jointly liable were allocated in proportion to segment assets.

c. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

	For the Year Ended December 31	
	2017	**2016**
Steel - direct sales	$ 5,312,721	$ 4,022,235
Steel - manufacturing sales	2,959,289	2,375,870
Investments	79,902	13,581
	$ 8,351,912	$ 6,411,686

d. Geographical information

The Group operate in the principal geographical area - Taiwan.

The revenue of the Group from continuing operations and from external customers by location of operations are detailed below.

	For the Year Ended December 31	
	2017	2016
Taiwan	$ 7,604,738	$ 6,171,186
Others	747,174	240,500
	$ 8,351,912	$ 6,411,686

e. Information about major customers

No revenue from any individual customer exceeds 10% of the Group's total revenue for the years ended December 31, 2017 and 2016.

VII. Review of Financial Conditions, Financial Performance and Risk Management

A. Review and analysis of financial conditions and performance

(A) Analysis of financial status in the most recent 2 years

Unit: NT$1000

Item \ Year	2017	2016	Difference	
			Amount	%
Current assets	7,145,458	6,566,789	578,669	8.81
Property, plant and equipment	3,835,473	3,033,067	802,406	26.46
Intangible assets	0	-	0	-
Other assets	2,837,307	2,321,300	516,007	22.23
Total assets	**13,818,238**	**11,921,156**	**1,897,082**	**15.91**
Current liabilities	5,836,291	4,715,936	1,120,355	23.76
Non-current liabilities	1,503,618	1,632,283	(128,665)	(7.88)
Total liabilities	**7,339,909**	**6,348,219**	**991,690**	**15.62**
Capital	3,061,937	2,991,876	70,061	2.34
Capital reserve	867,686	1,016,806	(149,120)	(14.67)
Retained earnings	2,312,495	1,555,418	757,077	48.67
Other equity	28,820	(19,407)	48,227	(248.50)
Treasury stock	0	-	0	-
Non-controlling equity	207,391	28,244	179,147	634.28
Total stockholders' equity	**6,478,329**	**5,572,937**	**905,392**	**16.25**

1: The Company should describe the main reasons and impact of any material change in the company's assets, liabilities, or shareholders' equity during the past two fiscal years (changes that exceed 20% between periods and a value of NT$10 million) and future response plans.

Accounts	2017	2016	Difference		Reason for changes and description of future response plans
			Amount	%	
Cash and cash equivalents	810,178	668,153	142,025	21%	Profits for the current period increased due to cash inflow generated by business and financing activities.
Financial assets at fair value through profit and loss - current	1,038,156	823,390	214,766	26%	Due to better performance by the domestic stock market and investments, the gain on valuation increased.
Available-for-sale financial assets - current	81,767	330,402	(248,635)	-75%	1. Due to disposal of partial holding of stocks in China Steel Company in the current period. 2. Due to increase in investment in private companies in the current period.
Available- for-sale financial assets - non-current	1,940,049	1,908,377	31,672	2%	
Prepayment	82,035	42,915	39,120	91%	Caused by the increase of prepayment for purchase of materials in the current period.
Other accounts receivable	504	68,361	(67,857)	-99%	The other accounts receivable decreased for the current period due to receiving payments for selling investments.
Inventory	2,748,943	2,263,475	485,468	21%	To diversify products, the Company increased inventory in multiple types of steel during the current period.
Other financial assets	90,246	70,073	20,173	29%	In response to increased inventory allocation, the pledged deposit needed to issue a letter of credit for purchasing materials needs to be increased.
Other current assets - other	17,235	252	16,983	6,739%	Mainly due to increase of temporary payments of the subsidiary.
Equity method investments	533,065	39,725	493,340	1242%	Mainly due to the capital increase of Hsin Wei Optoelectronics Co., Ltd. and new investments in Mason Metal Industry Co., Ltd. stocks during the current period.
Property, plant and equipment	3,835,473	3,033,067	802,406	26%	Due to construction of Guanyin Phase 5 Factory No. 2, Tainan Sin-Ji Factory, and additional plants at Kaohsiung Factory No. 1.
Other non-current assets	81,849	95,256	(13,407)	-14%	Due to accounting for decrease in overdue payments in the current period.
Short-term bills payable	469,508	189,774	279,734	147%	Due to newly issued short-term bills in the current period.
Financial liabilities at fair value through profit and loss - current	38,012	91	37,921	41671%	Due to loss on valuation of forward foreign exchange and valuation on bonds payable during the current period.

Accounts	2017	2016	Difference		Reason for changes and description of future response plans
Other accounts payable	159,637	235,508	(75,871)	-32%	Due to the receipt on custody and payments on behalf of others on disposal of investments.
Current income tax liabilities	133,329	11,157	122,172	1095%	Due to the increase in profits in 2017 and an extra 10% taxed on the undistributed earnings of 2016, the income tax payable for the current period increased.
Other current liabilities	104,359	76,018	28,341	37%	Due to increase in temporary receipts in the current period.
Bonds payable	532,148	-	532,148	-	Due to the NT$600 million in the newly issued Hsin Kuang 5 convertible bond.
Net defined benefit liabilities - non-current	19,692	37,211	(17,519)	-47%	Due to the additional transfer of pension under the old system, in accordance to labor laws, to the pension account in Bank of Taiwan.
Retained earnings	2,312,495	1,555,418	757,077	49%	Due to increased profits in the current period.
Other equity	28,820	(19,407)	48,227	-249%	Due to better performance by the domestic stock market and investments, the gain on valuation increased.
Non-controlling equity	207,391	28,244	179,147	634%	Due to issuance of stocks of Hsin Ching International Co., Ltd. in 2017, which was newly included in the report in the current period.

(B) Analysis of financial performance in the most recent 2 years

Account \ Year	2017		2016		Amount of change	Percentage of change
	Subtotal	Total	Subtotal	Total		
Net operating revenue		8,351,912		6,411,686	1,940,226	30.26
Operating costs		(7,238,113)		(5,494,697)	(1,743,416)	31.73
Gross profit		1,113,799		916,989	196,810	21.46
Operating expenses		(344,505)		(243,878)	(100,627)	41.26
Net value of other revenue and expenses		225,231		78,989	146,242	185.14
Operating profit		994,525		752,100	242,425	32.23
Non-operating income and expenses						
Other income	13,418		11,729		1,689	14.40
Gain on bargain purchase	211,110				211,110	-
Other interest and losses	98,027		140,895		(42,868)	(30.43)
Financial costs	(111,489)		(94,132)		(17,357)	18.44
Share of profits on equity method associated companies and joint ventures	3,873		688		3,185	462.94
Total Non-operating income and expenses		214,939		59,180	155,759	263.20
Pre-tax profit or loss of continuing operations		1,209,464		811,280	398,184	49.08
Income tax expense		(135,932)		(61,496)	(74,436)	121.04
Current net profit (loss)		1,073,532		749,784	323,748	43.18

Account \ Year	2017		2016		Amount of change	Percentage of change
	Subtotal	Total	Subtotal	Total		
Other comprehensive income						
Translation differences in financial statements from foreign operations	(10,405)		(8,529)		(1,876)	22.00
Unrealized income on valuation of available-for-sale financial assets	58,600		471,450		(412,850)	(87.57)
Actuarial losses on defined benefit plan	(2,955)		(3,107)		152	(4.89
Other comprehensive income (net income after-tax)		45,240		459,814	(414,574)	(90.16)
Total comprehensive income for the period		1,118,772		1,209,598	(90,826)	(7.51)

Analysis of changes in proportion: (for accounts with changes of over 20%)

1. Operating Revenue: Mainly due to the stable domestic price of steel and increase in orders, leading to the increase in operating revenue over the current period.
2. Operating costs: Mainly due to the continued rise in international iron ore prices, rise in prices from China Steel, and increase in sales.
3. Gross profit, operating profit, current net profit: Due to the stable domestic price of steel, increase in orders, and the rise of prices from China Steel, steel price and sales continue to rise, thus causing the gross margin to rise in as a result.
4. Operating Expenses: Mainly due to the increase in payroll expenses and provisions for bonuses, and allocating 3% each of profit before tax for compensation payable to the employees and to the directors and supervisors in accordance with the Company's Articles of Incorporation.
5. Other interest and losses: Mainly due to the strong performance of stock markets around the world and in Taiwan in 2017, leading to a net profit on valuation of financial assets.
6. Non-operating income and expenses: Mainly due to the purchase of Mason Metal Industry Co., Ltd. being recognized as a bargain purchase in accordance to International Accounting Standards.
7. Income tax expenses: Due to increase in profits and accounting for the 10% tax on undistributed earnings in 2017.
8. Translation differences in financial statements from foreign operations: Mainly due to the strong performance of the New Taiwan Dollar against the US Dollar in 2017 leading to a currency exchange loss.
9. Unrealized income on valuation of available-for-sale financial assets: Mainly due to the Company's disposal of partial holdings of China Steel stocks and good investment performance, the gain on valuation increased.

(C) Major changes that have occurred or are expected to occur in operating policies, market conditions, or other internal or external factors of the Company in the most recent 2 years that would cause material impact on the continuing operation.

Analysis of changes in gross profit:

Unit: NT$1,000

	Addition or reduction changes between periods	Reason for the difference			
		Difference in sales prices	Difference cost	Difference in product sales combination	Difference in volume
Gross profit	196,810	1,347,632	(1,245,624)	34,161	60,640
Description	Gross profits changed by NT$196,810,000 from the previous period mainly due to stabilization of domestic steel prices and China imposing a curb on steel production. In addition, Taiwan's imposing of anti-dumping duties on certain countries (e.g. Korea, Brazil, Ukraine) and China Steel continuing to raise wholesale prices lead to a rise in the purchasing cost. However, since the rise in unit sale prices exceeded that of unit purchasing cost, the gross margin continued to increase.				

(D) The expected sales quantity for the next year and basis for prediction, and the factors influencing the continued growth or decrease of the expected sales quantity. The outlook for the domestic steel market in 2018 will be dependent upon the reinvestment opportunities in related domestic industries due to major constructions that are part of the government green energy policy as well as the decreased production from Chinese steel plants. With a diminished supply, steel prices are due for a steady rise, while the investment of private enterprises in factories and the infrastructure constructions of the domestic green energy policy will drive domestic steel demand. Thus, the total sales volume for the year 2018 is 380,000 tons.

B. Cash flow review and analysis

Unit: NT$1,000

Balance at start of year (December 31, 2016) ①	Net cash flow from operating activities (2017) ②	Net cash flow from investment and financing activities (2017)	Cash balance (December 31, 2017) ① + ②- ③	Improvement plan for insufficient liquidity	
				Investment plan	Financial plan
668,153	518,957	(376,932)	810,178	No	No

1. Analysis on the cash flow changes of the current year:
   (1) Cash inflow from operating activities amounted to approximately NT$518,957,000: Mainly due to net profit after tax, depreciation and amortization expenses.
   (2) Cash outflow from investment activities amounted to approximately NT$1,018,578,000: Mainly due to capital expenditure and investments in Mason Metal Industry Co., Ltd..
   (3) Cash inflow from financing activities amounted to approximately NT$647,816,000: Mainly due to the issuance of the Hsin Kuang 5 convertible bond.
2. Improvement plan for insufficient liquidity and liquidity analysis: There were no instances of insufficient liquidity.
3. Cash flow analysis for the coming year: N/A.
3. Cash liquidity analysis of the most recent two years:

Year / Item	December 31, 2017	December 31, 2016	Change (%)
Cash flow ratio (%)	8.89	12.76	(30.33%)
Cash flow adequacy ratio (%)	68.52	79.86	(14.20%)
Cash reinvestment ratio (%)	0.00	5.55	(100%)

Analysis of changes in proportion:

Mainly due to a net positive cash flow as a result of factors such as the increase in company profits, increase in capital expenditure from factory construction, and increased investment in stocks.

C. Effects of significant capital expenditures have had on financial operations in the current year: No

D. Reinvestment policy, main reasons for profit/losses resulting therefrom, improvement plan, and investment plans for the upcoming year:

The Company's various investment amounts have not exceeded 10% of paid-in capital.

The Company's equity method reinvestments have long-term strategic purposes; the Company's equity method net profit from reinvestments totaled NT$117,648,000, better than the performance of the previous year. The main reasons include domestic developments that drove profits (the green energy policy creates major domestic demand for infrastructure construction), the anti-dumping duties levied on some imported steel products by the Ministry of Finance, China Steel raising steel wholesale prices each quarter, and the continued rising of the domestic stock market index. External factors include China's economic slowdown, and a still fragile financial system in an advanced economy. In the future, the Company shall continue to conduct prudent assessments of reinvestment projects based on the principle of long-term strategic goals.

E. Risk analysis and assessment of the most recent year up to the publication date of this report:

The Board of Directors plays a critical role in identifying and managing economic risks.

The Company and its subsidiaries are committed to adopt cost-effective methods to integrate and manage potential risks in strategies, operations, finances, and other hazardous risks that may impact operations and profits.

The Company is committed to its corporate goals and the responsibility of maintaining long-term sustainability in industrial and social development. The Company has established corporate risk management for the purpose of providing appropriate risk management for all stakeholders. The Company's risk management focuses on "strategic risks", "operational risks", "financial risks", "hazardous risks", and "risks associated with climate change and non-compliance with related regulations on environmental protection or climate change or other international laws and agreements".

(A) The effects that interest rates, exchange rate fluctuations, and inflation have on company earnings and losses as well as response measures:

In 2017, the Company's income/expenses on interest and the profit/loss on exchange as a ratio of net operating revenue

Item	2017 (Unit: NT$1,000; Years)
Net interest income (expenses)	(110,531)
Net exchange income (loss)	108,272
Net interest income (expenses) as a ratio of net operating revenue	-1.32%
Net profit (loss) on exchange as a ratio of net operating revenue	1.30%

①. Interest rate change

The Company's interest rate risks derive mainly from liabilities and financial investment produced in supporting business activities. The Company's income and expenses on interest are mainly affected by changes in interest rates in Taiwan and the United States. To lower interest rate risks, the Company operates mainly with cash income from operations and only issues long-term corporate bonds with fixed interest rates from time to time to satisfy funding requirements. In financial investments, the Company mainly invests in high fluidity short-term fixed income bonds with high ratings to ensure the security of the principal and to maintain liquidity. However, these hedging operations can only lower parts of the risks and cannot fully eliminate the financial impact caused by fluctuations in interest rates.

②. Exchange rate change

More than half of the Company's material procurement expenditure is paid in foreign currencies such as USD. In addition, most of the Company's revenue is in TWD. Therefore, any significant changes in international exchange rates may have unfavorable effects on the Company's finances. However, in 2017 the TWD has continued to rise with frequent and significant fluctuations in the exchange rate due to the continued rise of the domestic stock market, influx of foreign capital, and being listed by the US as one of the countries intervening with exchange rates. Due to the Company's adoption of forward foreign exchange hedging positions, the 9.42% rise in the average value of TWD against USD from 2016 to 2017 did not cause negative impact on the Company. The Company's net profits from exchange in 2017 amounted to NT$108,272,000. The Company mainly uses forward foreign exchange contracts to lower the exchange rate risks for assets and liabilities.

The Company uses derivatives (e.g. Forward foreign exchange contracts), or non-derivatives (e.g. Short-term borrowing of functional currency) as financial tools to hedge foreign exchange positions that have been recognized or generated from highly probable transactions. The hedging may account for some of the financial effects caused by foreign exchange fluctuations, but not completely.

The current substantial increase in the exchange rate of the NTD against USD in 2018 can provide positive effects on the Company's profits.

③. Inflation, deflation, and overall fluctuations in the market

When the market reacts in anticipation of inflation or deflation, the resulting changes often severely impact the global economy. Both high inflation and deflation will decrease market efficiency, interrupt investment decisions, and cause negative macroeconomic and microeconomic effects. For example, the "balance sheet reduction plan" by the US Federal Reserve Board and the potential changes to US economy, finance, or trade policies have exacerbated the market fluctuations caused by the expectation of inflation. The market fluctuations brought upon by changes in the economy may have a minor influence on the operating costs of the Company, but may also have no major effect on operations. As such, the products and services provided by the Company will not see significant changes due to expectations of inflation or deflation and market fluctuations.

In 2017, the inflation rate in Taiwan (using the Consumer Price Index of the Directorate-General of Budget, Accounting and Statistics) was approximately 100.62% (an annual increase of 0.62%); In 2018, the predicted inflation rate in Taiwan (using the Consumer Price Index of the Directorate-General of Budget, Accounting and Statistics) will increase by 1.21%. The Company does not believe that inflation or deflation in Taiwan would have major impact or effect on the results of the Company's operations in 2018. However, the Company cannot guarantee that major changes in the nature, scale, or scope of future inflation or deflation would not negatively impact the results of the Company's operations.

④. Financial risks

The Company's main materials are purchased from foreign countries. therefore the planning for capital requirements becomes relatively challenging when major fluctuations appear in bonds, interest rates, exchange rates, and stock markets. In the next few years, the Company shall require medium-sized capital to maintain operations and expand productivity and locations for the operations of the logistics network. The Company's capacity for continuous financing relies on many uncertain factors including:

- The Company's future financial status, operating performance, and cash flow
- Status of market financing activities
- Market financing activities of the steel industry
- Social, economic, political, and other conditions in Taiwan and other regions

(B) Policies of engaging in high-risk, high-leverage investments, lending to others, providing endorsement and guarantee, and derivatives transactions, profit/loss analysis, and future response measures

The Company has not conducted high-risk or high-leverage financial investments in 2017 or in 2018 prior to the publication date of this Annual Report.

As of the date of publication of this Annual Report, the Company has provided endorsement and guarantee of NT$7,400,000 to Hsin Kuang Alga Engineering Co., Ltd., a subsidiary of the Company with 68.16% of shares held by the Company.

On March 13, 2018, the Company loaned NT$50 million to its subsidiary Hsin Ho Fa Metal Co., Ltd. The loan complies with relevant laws and was processed in accordance to relevant regulations.

During the year 2017, all transactions in derivative financial products conducted by the Company are for hedging purposes and not operations for trade or for profits. For details on the transactions, please refer to the "Financial Overview" in the Annual Report (page 82). The fair market value of financial investments for the purpose of transactions and for preparation for sales may change due to market conditions and changed costs that would affect related rates of return.

To control risks in financial transaction, the Company has established internal management regulations and operating procedures that strengthen financial and operational foundations in accordance with related regulations of the Securities and Futures Bureau of the Financial Supervisory Commission. These regulations include "Procedures for the Acquisition or Disposal of Assets", "Procedures for Extending Loans to Others", and "Endorsement and Guarantee Making Procedure".

(C) Future R&D projects and estimated R&D expenditure: Not applicable.

(D) Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales:

The Company's management keeps continuous watch over any changes in policies and regulations that might affect the Company business and operations, and has established related risk management procedures. Important changes in regulations regarding the operations of the Company in 2017 and 2018 up to the publication date of the Annual Report are as follows:

The Income Tax Act amended in 2018 has canceled the Integrated Income Tax System, raised the tax rate of the Profit-Seeking Enterprise Income Tax from 17% to 20%, and income tax on undistributed earnings reduced from 10% to 5%. Since the 5-year tax exemption applied for during the capital increase and expansion in 2016 is still in effect, the effective tax rate for the year 2018 for the Company will not be significantly affected.

The Company has complied with the revised Labor Standards Act announced on December 21, 2016 to modify related internal regulations such as adjusting the payment standards for working overtime on rest days and increasing special leaves. The changes will increase the Company's operating costs. However, the Labor Standards Act amendment announced on January 31, 2018 has adjusted the payment standards for working overtime on rest days again. Therefore, the increase in operating costs caused by the previous amendment will be less severe in 2018.

Regarding the changes to the environmental protection laws, including (1) In response to climate change and the implementation of the "Greenhouse Gas Reduction and Management Act", and the related "Regulations for Periodic Regulatory Goals and Approaches of the Greenhouse Gas Emission" announced in March, 2017 that outline the reduction goal and schedule, the Company has drafted a response measure to prevent any effect on future expansion plans; (2) The amendments to the "Stationary Air Pollution Source Control Fee" and "Regulations Governing Emergency Protocol During Severe Air Quality", announced in May and June 2017, respectively, adds regulations such as a seasonal air pollution fee and granting the local government the power to implement regional protection plans which will add to the operating costs of the Company; and (3) The "Waste Disposal Act", amended in June 2017, and the newly enacted "Principles in Determining Due Care of Enterprise Commissioning Clearance of Waste" state that enterprises must exercise due care in managing the commissioned waste disposal company. The Company will amend the regulations and commissioning contracts such as those relating to vendor section and auditing to ensure compliance with the law. In addition, the legislature is in discussion about amending other environmental protection laws (e.g. Environmental Impact Assessment Act and Air Pollution Control Act). Since the contents of the amendment has not been determined, its actual impact upon enforcement cannot be known. However, it may affect the expansion plan and increase company operating costs.

Since part of the Company's revenue comes from sales to major economies in the world (please refer to "Business Overview – Market, production and sales " on page 63 of the Annual Report). Changes in the trade policies of the major economies (e.g. trade barrier measures) may influence the sales of the Company or its clients and subsequently the business results of the Company. Therefore, the Company is continuing to pay attention to the changes in trade policies and measures between major economies and adopt response measures according to future developments.

In addition to the aforementioned regulations, changes in other related policies and regulations would not cause material impact on the Company's finances and operations.

(E) Impact of Technological and Market Changes on the Company's Finances and Business and Countermeasures:

From 2017 to 2018 till the publication date of the Annual Report, the Company has continued to expand the automated cutting equipment and production lines for offshore wind power equipment. In the future, the Company shall increase the production of products to satisfy customer requirements with existing technologies for cutting, production of components, offshore windmill bases, and the pipe production technology for the base foundation underwater.

The steel product market has always been affected by economic cycles and the characteristics of the market also impact the manufacturing and service industry for steel products. Most customers of the Company are in public engineering industries, automobile industry, machinery production industry, electrical component industry, components industry for offshore windmill base and base foundation underwater. Therefore the Company's revenue and profits are also affected by customers' purchase orders.

The steel product consumer industry faces critical and continuous economic decline and overcapacity in Mainland China. The Company's current and future business requirements all come from these industrial customers. The economic decline in the aforementioned industries and overcapacity will lower the demand for the entire steel manufacturing and service industry as well as the Company. If the Company cannot reduce cost or adopt other measures to effectively offset the impact of reduced demand, its revenue, profits, and profitability will be impacted during economic downturns and steel overcapacity.

In response to constant changes in the steel product consumer industry and its technologies, the key to the Company's competitive advantage lies in the continued enhancement of precision processing to provide steel products that better fulfill customer demand with diverse service and business models. If the Company cannot foresee the changes in technology and quickly develop innovative business models and cutting production processes, or if competitors unexpectedly obtain more advanced cutting technologies, the Company may not be able to obtain purchase orders under competitive conditions. Although the Company continues to expend effort on maintaining advantages in R&D of steel product quality and cutting production processes, the Company's competitiveness will be affected if it cannot maintain its lead in technologies or production processes.

Regarding response measures for the above mentioned risks, refer to the "Business Overview" (page 63) in the Annual Report.

(F) Impact of corporate image change on risk management and response measures:

The Company is founded on the core values of trust, harmony, innovation, and sharing.

With its outstanding operational performance, comprehensive corporate governance, and fulfillment of social responsibilities, the Company has established an excellent corporate image in Taiwan and across the world. Meanwhile, the Company continues to demonstrate a sustainable capacity for innovation in aspects such as economy, environment, and society and is dedicated to being a good corporate citizen.

The Company has always seen itself as a driver for improving society, with a long term goal of "creating sustainable development, fairness, and justice to build a beautiful Taiwan". The company has dedicated departments for brand management, customer service, material management, quality and reliability, risk management, finance, investor relations, operations, environmental protection & safety & sanitation, human resources, internal control, social charity foundation, and public relations. The close cooperation and coordination of resources between each department consolidates the Company to build upon the excellent corporate image. Meanwhile, the Company is well prepared to prevent and control any potential crisis.

For potential crisis that could impact the Company image such as accidents such as earthquakes, fires, and occupational incidents, multiple preventative measures are in place. Crisis command management and internal control protocols and emergency protocols have also been developed, in additional to the establishment of an emergency command system. In the case of the above mentioned crisis, each department can initiate the emergency measure immediately to prevent or lower the influence the incident may have on the safety of the personnel, the environment, company property, and stoppage in production. The spokesperson will also be notified to clearly explain the situation to the outside, thereby maintaining the company image and smooth operations.

The Company has not experienced any risks that affected the normal operations and corporate image for 2017 and 2018 up to the publication date of the Annual Report.

(G) Expected benefits and potential risks of merger and acquisition:

The Company has not experienced any risks associated with mergers or acquisitions for 2017 and 2018 up to publication date of the Annual Report.

(H) Expected benefits and potential risks of capacity expansion:

The company performs predictions on the long-term demands of the market on a regular basis with respect to its products and services to make plans for production capacity. Since the demand prediction is continuously adjusted with the dynamic changes of the market environment, the Company may temporarily halt production lines or machines of some factories when demand is lower; When the demand increases rapidly, the Company may not be able to restore capacity in time to satisfy all demands during good economic times.

According to the recent market demand predictions, the Company expanded secondary processing lines for steel structure components in 2017 to match the demands of the market for its products and services. Production lines for offshore wind farm bases and base foundations under water will be expanded in 2018 to fulfill market demand for related product and services. Since expansion of production capacity adds to the operational cost due to additional purchase of equipment, hiring and training staff, if the Company cannot generate a corresponding increase in income, a negative influence will be reflected in the financial statements.

In response to the possible risks mentioned above associated with expansion of production capacity, the Company will continue to monitor market changes and cooperate closely with customers. If the market demand does not match predictions, the Company will adjust its plan to expand production capacity to reduce the negative impact on the company's financial performance.

Overall, the Company's capacity in 2017 is better than the previous year and the annual average capacity utilization rate is 83.66%. As of the publication date of the Annual Report, the performance of the Company's capacity expansion in 2017 has met expectations.

(I) Risks associated with over-concentration in purchase or sale:

The Company has thousands of customers across Taiwan. The total net income from sales to the top ten customers in 2016 and 2017 accounted for approximately 15% and 26% of the Company's net revenue from sales and the largest customer accounted for 5% and 6%. Therefore there was no over-concentration of sales.

The Company is required to obtain raw material such as steel plates, special steel plates, alloy steel plates, hot-rolled steel plates, galvanized steel products, and stainless steel products at appropriate times. There has been instances where certain foreign suppliers adjusted prices temporarily or delayed delivery due to economic growth in the steel market. In addition, due to the characteristics of the industry, certain raw materials purchased by the Company are supplied by a single supplier. If alternative sources cannot be found, there could be risks of not being able to satisfy requirements. If the Company cannot obtain necessary raw material or if the prices of raw materials increase substantially and the increased cost cannot be transferred to the customer, the Company's revenue and profits will decline. Therefore, the Company tries to purchase raw materials from different suppliers or from different regions to ensure stable supply of raw materials and to lower the risks of concentrated purchases.

The Company's business growth and continued capacity expansion also rely on whether we could obtain sufficient equipment and related services from a limited number of suppliers. The supply in the equipment market is often limited and requires extended lead time. In the heavy processing machinery and related industries, the lead time for machinery procurement can be as long as six months. To reduce such risks, the Company provides suppliers with demand forecasts to arrange production schedules for machines. The Company also discusses with suppliers to establish mutually-agreed business models in order to advance the preparation of components that require longer lead times and reduce the lead time for purchasing equipment. If the Company cannot promptly obtain reasonably priced equipment required for production, it may not satisfy customer purchase orders and cause negative financial and operational impact.

(J) Impact of mass transfer of equity by or change of directors, or shareholders holding more than 10% interest on the Company and associated risks:

The price of the shares in the possession of the shareholders may be affected by the selling of stocks by major shareholders. For Example: Chairman Ming-Te Su, one of the Company's major shareholders, has rarely conducted large transfers or exchange of shares from 1997 to 2017.

The Company's Directors, or major shareholders holding more than 10% of the company shares have not conducted large transfers or exchange of shares that could affect the normal operations of the Company from 2017 and 2018 till to publication date of the Annual Report.

(K) Impact of change of management rights on the Company and associated risks:

The Company has not seen any signs that indicate risks of change of management rights from 2017 and 2018, up to the publication date of the Annual Report.

Mr. Ming-Te Su holds the positions of Chairman and President of the Company.

(L) Any litigious, non-litigious or administrative litigation event as of the publication date of the Annual Report:

The Company has not experienced any major litigation from 2017 and 2018 up to publication date of the Annual Report and has no current major pending litigations.

(M) Risks in impairment loss and response measures

The Company follows regulations in the International Accounting Standards and when there are signs of impairment of assets, the Company is required to conduct impairment assessment on its investments and tangible and intangible assets. When certain conditions are met, the Company is required to recognize impairment loss. In addition, under the regulation of Taiwan-IFRS, an annual negative goodwill impairment test must be performed. When signs of impairment are present and the book value could not be recovered, the impairment test must be performed with increased frequency.

The impairment loss in parts of the Company's investment in TWSE-listed companies, TPEx-listed companies, or companies not listed on the TWSE or TPEx are disclosed in "Financial Overview" of the Annual Report (page 82). When recognizing impairment loss at any point in time, it is determined mainly by the possible effect on the operating performance for the next several years. Therefore, impairment loss are more likely to occur when the company operating performance is already falling.

The Company has established related systems to conduct strict management of impairment of assets. However, the Company cannot predict the extent or time of asset impairment in the future and whether it may negatively impact the Company's net profits after tax.

(N) Litigation events involving the Director, General Manager, de facto responsible person, major shareholders holding more than 10% interest, or subsidiary of the Company up to publication date of the Annual Report:

The company's Directors, General Manager, de facto responsible person, major shareholders holding more than 10% interest, or subsidiaries of the Company have not been involved in major litigation from 2017 and 2018 up to publication date of the Annual Report and there are no current major pending litigations.

(O) Hazardous risks:

The Company dedicates full effort on maintaining comprehensive risk management for the protection of natural resources and the security of employees and assets. It also develops comprehensive response plans and procedures with regard to risk prevention, emergency responses, crisis management, and continuous operations for all conceivable emergencies and natural disasters.

The Company focuses on emergency responses to various disasters such as typhoons, floods or droughts caused by climate change, earthquakes, pollution, interruptions in the information system, strike, contagious diseases (such as H1N1 influenza), and interruption of the supply of materials, water, electricity, and public facilities. The Company has established work teams at all points of operations to respond to the aforementioned incidents to ensure continued operations.

Despite multiple earthquakes in 2017, the buildings and production equipment of the Company's points of operations were earthquake-resistant structures built in accordance with regulations. Therefore the Company has not experienced any related risks from the 2017 and 2018 up to the publication date of the Annual Report.

(P) Cybersecurity risks:

The Company is equipped with comprehensive Internet and computer security protection system to monitor or sustain the Company's production, operations, and accounting systems. However, the Company cannot guarantee that its computer systems are free from computer virus attacks with by third parties that may paralyze the system. The cyber-attacks infiltrate the Company's internal network system illegally and cause damage to the Company's operations and the Company's reputation. Under severe cyber-attacks, the Company's system may lose important corporate information. Through annual inspections and assessment of its network safety regulations and protocols, the Company can ensure its suitability and efficacy, but cannot guarantee that the Company will not be affected by new risks and attacks born from the ever-changing network security threats.

Cyber-attacks may also attempt to steal the Company's trade secrets, other intellectual properties, and confidential information. E.g. exclusive information of customers or other stakeholders or personal information of employees. Malicious hackers could also inject computer viruses, destructive software or ransomware into the Company's network system to disrupt the Company's operations, regain control over the computer systems to blackmail the Company, or to obtain confidential information. These attacks could cause delays or interruption of purchase orders which would lead to damage due to delayed deliveries, or the Company may have to bear extensive costs to implement fixes and improvements to bolster the Company's network security system; They may also cause the Company to leak information from client or third parties to whom the Company owes obligation of confidentiality leading to litigations or investigations and consequently be legally liable. In addition, the Company needs to share highly sensitive and confidential information to third party vendors that provide enterprise services to the Company to allow them to provide such services. Although the service contracts signed between the Company and the third party service providers demand confidentiality and conformance to cybersecurity regulations, there is no guarantee that the third party service providers will fulfill the obligations. The internal network system and / or external cloud computing network (e.g. Servers) maintained by said service provider or its contractor are also at risk of cyber-attacks. If the Company or its service providers can not solve the difficult technical problems caused by the cyber-attacks promptly, ensure the credibility and availability of the Company's data, or regain control of the computer system of the Company and its service provider, the commitment of the Company to its customers and stakeholders may be seriously damaged. The operating performance, financial conditions, prospects, and reputation may also be severely and negatively affected.

In 2017 and 2018 up to the publication of the Annual Report, the Company has not discovered any major cyber-attack or incident that have already or may still severely and negatively affect the Company business and operations. The Company also has not been involved in any legal cases or investigations relating to such incidents.

(Q) Other critical risks:

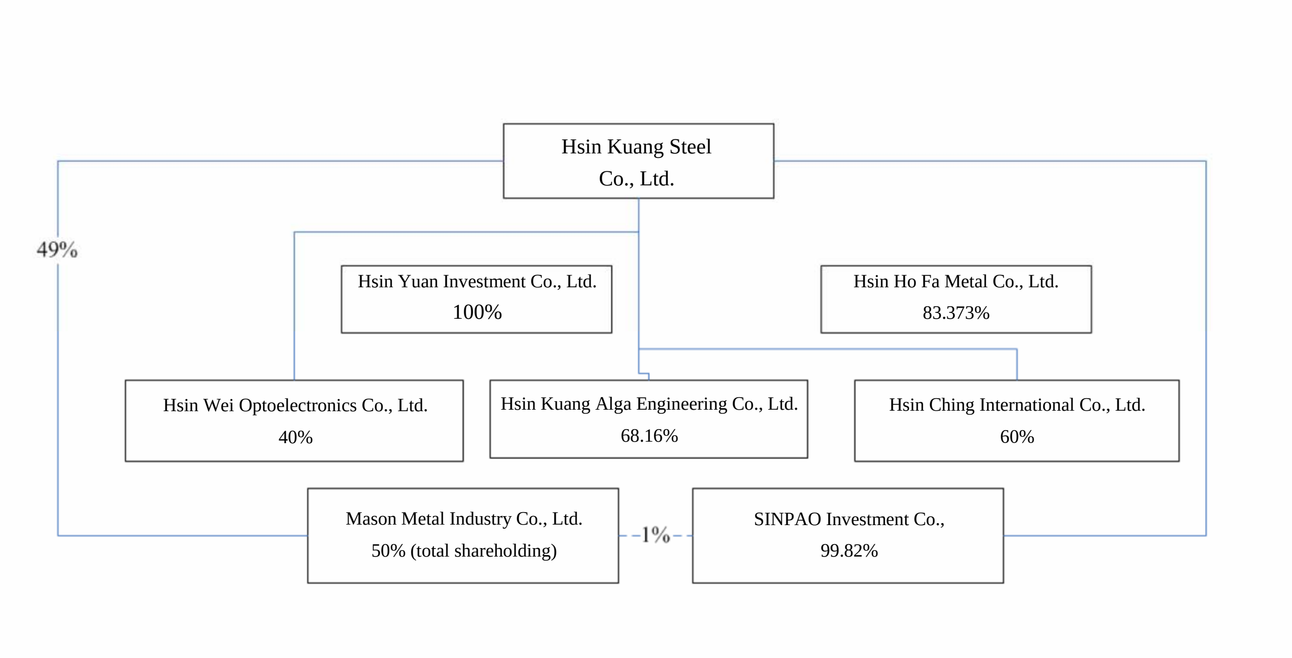
The Company has not experienced any other critical risks from 2017 and 2018 up to the publication date of the Annual Report.

F. Other critical matters: No

VIII. Important Notice

A. Affiliates and subsidiaries

(A) Diagram of affiliates



(B) Information of affiliates

As of December 31, 2017

Unit: NT$1000

Name	Date of establishment	Address	Paid-in capital	Principal business or core products
Hsin Yuan Investment Co., Ltd.	1998/09/22	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	170,000	Capital investment
Sinpao Investment Co., LTD(B.V.I)	2001/11/13	TrustNet Chambers Road Town Tortola British Virgin Islands	US$4.181 million	Capital investment
Hsin Ho Fa Metal Co., Ltd.	2003/01/28	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	121,660	Wholesale of metal construction materials
Hsin Kuang Alga Engineering Co., Ltd.	2009/11/02	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	125,000	Metal architectural components manufacturing
Hsin Wei Optoelectronics Co., Ltd.	2010/09/28	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	72,000	Power generation for non-metallic use
Hsin Ching International Co., Ltd.	2015/12/18	25F-1, No. 97, Section 4, Chongxin Road, Sanchong District, New Taipei City	200,000	Lease and storage
Mason Metal Industry Co., Ltd.	1990/07/20	7F., No. 649-6, Zhongzheng Rd., Xinzhuang Dist., New Taipei City	500,000	Automotive steel plate cutting and processing

(C) Information of common shareholders who are presumed to have a relationship of control and subordination

N/A as of December 31, 2017.

(D) Businesses covered by the affiliated enterprises' overall operations

Businesses covered by the affiliated enterprises' overall operations mainly include "cutting and logistics distribution services in the steel industry" and "metal architectural components manufacturing". The business scope of other affiliated enterprises include "investment business", "power generation for non-metallic use", "lease and storage", and "automotive steel plate cutting and processing".

(E) Information of Directors, Supervisors and General Managers of enterprises affiliated to Hsin Kuang Steel Co., Ltd.

As of December 31, 2017

Unit: Shares: %

<table>
<tr><th rowspan="2">Name</th><th rowspan="2">Title</th><th rowspan="2">Name or representative</th><th colspan="2">Shareholding</th></tr>
<tr><th>Number of shares</th><th>Shareholding ratio</th></tr>
<tr><td rowspan="3">Hsin Yuan Investment Co., Ltd.</td><td>Chairman & General Manager</td><td>Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su</td><td rowspan="2">16,988,780</td><td rowspan="2">99.93%</td></tr>
<tr><td>Director</td><td>Representative of Hsin Kuang Steel Co., Ltd.: Xiao-Ru Su</td></tr>
<tr><td>Supervisor</td><td>Yung-Yu Chiu</td><td>-</td><td>-</td></tr>
<tr><td>SINPAO INVESTMENT CO., LTD(B.V.I)</td><td>Chairman of the Board</td><td>Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su</td><td>US$4,181,091</td><td>99.82%</td></tr>
<tr><td rowspan="4">Hsin Ho Fa Metal Co., Ltd.</td><td>Chairman & General Manager</td><td>Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su</td><td rowspan="2">10,143,159</td><td rowspan="2">83.37%</td></tr>
<tr><td>Director</td><td>Representative of Hsin Kuang Steel Co., Ltd.: Teng-Kui Kao</td></tr>
<tr><td>Director</td><td>Representative of Top East Steel & Iron Company Ltd.: Chih-Yuan Huang</td><td>289,125</td><td>2.38%</td></tr>
<tr><td>Supervisor</td><td>Tai-Tou Chang</td><td>578,250</td><td>4.75%</td></tr>
</table>

Hsin Kuang Alga Engineering Co., Ltd.	Chairman of the Board	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	8,5200,000	68.16%
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Jessica P.H. Liu		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Teng-Kui Kao		
	Director	Representative of Istrong Enterprise Co., Ltd.: Jung-Lin Lu	3,268,000	26.14%
	Director	Representative of Hsin Kuang Alga Engineering Co., Ltd.: Yun-Cheng Pan	485,000	3.88%
	Supervisor	Chao-Lang Hsu	-	-
Hsin Wei Solar Co., Ltd.	Chairman of the Board	Representative of Wei Sheng Investment & Development Co., Ltd.: Kui-Kuang Chen	4,320,000	60.00%
	Director	Representative of Wei Sheng Investment & Development Co., Ltd.: Chin-Hui Chen		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	2,880,000	40.00%
	Supervisor	Jessica P.H. Liu	-	-
Hsin Ching International Co., Ltd.	Chairman of the Board	Representative of Hsin Kuang Steel Co., Ltd.: Alexander M.T.Su	12,000,000	60.00%
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Ming-shan,Jheng		
	Director	Representative of Hsin Kuang Steel Co., Ltd.: Jessica P.H. Liu		

	Director & General Manager	Representative of Li Hsin Investment Co., Ltd.: Ho-Chou Huang	6,000,000	30.00%
	Director	Representative of Chuan Da Investment Co., Ltd.: Ho-Tung Huang	1,400,000	7.00%
	Supervisor	Lisa H.C. Chien	-	-
	Supervisor	Representative of Honova Resources Ltd.: Hsiao-Yu Chang	600,000	3.00%
Mason Metal Industry Co., Ltd. Investment started on 2017/10/6	Chairman of the Board	Representative of Sumitomo Corporation of Japan: Yoshimitsu Jingu	25,000,000	50.00%
	Director	Representative of Sumitomo Corporation of Japan: Masaki Morohoshi		
	Director	Representative of Sumitomo Corporation of Japan: Shu-Hsien Huang		
	Director	Hsin Kuang Steel Co., Ltd. Representative: Alexander M.T.Su	25,000,000	50.00%
	Director	Hsin Kuang Steel Co., Ltd. Representative: Johnathon Y.J.Su		
	Director	Hsin Kuang Steel Co., Ltd. Representative: Wen-Chieh Lo		
	Supervisor	Yu Okano	-	-
	Supervisor	Jessica P.H. Liu	-	-

(F) Business overview for affiliates

As of December 31, 2017

Unit: NT$1,000, unless otherwise specified

Name	Paid-in capital	Total assets	Total liabilities	Net value	Operating revenue	Operating profit (loss)	Net income (loss) of this period	Earnings (loss) per share (NTD)
Hsin Yuan Investment Co., Ltd.	170,000	259,436	4,945	254,491	79,660	71,903	71,672	4.22
SINPAO INVESTMENT CO., LTD(B.V.I)	US$4,181	US$4,908	US$43	US$4,865	US$8	(US$12)	(US$229)	Not applicable
Hsin Ho Fa Metal Co., Ltd.	121,660	425,514	222,404	203,110	86,851	6,058	69,628	5.72
Hsin Kuang Alga Engineering Co., Ltd.	125,000	25,990	24,393	1,597	22,000	(13,332)	(13,163)	(1.05)
Hsin Wei Optoelectronics Co., Ltd.	72,000	265,545	190,311	75,234	14,049	3,884	2,216	0. 31
Hsin Ching International Co., Ltd.	200,000	431,875	-	431,875	-	(101)	(93)	-
Mason Metal Industry Co., Ltd.	500,000	1,355,528	739,882	615,646	472,421	14,917	13,539	0.27

Note 1. The losses of Hsin Kuang Alga Engineering Co., Ltd. are caused by the net expenditures in its initial establishment that are listed in the current period. The Company completed capital reduction of 12,340,000 shares in April 2018 to make up for losses.

Note 2. Hsin Ching International Co., Ltd. was established on December 18, 2015 and its main businesses are storage and lease. It is in the initial stage of development and only incurred expenses for its establishment. Its subsidiary issued 14,500,000 new shares in a capital increase in March 2017.

Note 3. The Company started investing in Mason Metal Industry Co., Ltd. in October 2017. The operating revenue, Operating profit/loss, net income (loss) of this period, and earnings per share are cumulative figures from October to December.

(G) Consolidated financial statement of affiliates

Affiliated enterprises that should be included in the consolidated financial statements of 2017 as provided by the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as what should be included in the consolidated financial statements of parent and subsidiary companies as provided in IFRS No. 10, and the relevant information that should be disclosed in the consolidated financial statements of affiliates has been disclosed in the consolidated financial statements of the parent and its subsidiaries. The Company shall not be required to prepare separate consolidated financial statements of affiliates.

(H) Reports from affiliates and subsidiaries: None

B. Status of private solicitation for marketable securities handling for the recent year up to the publication date of this annual report: None.

C. Holding or disposal of this company's shares by a subsidiary company in the last year, up to the publication date of this report: None

D. Other supplemental information: None

E. Status of private solicitation for marketable securities handling by subsidiaries for the recent year up to the publication date of this annual report: None

IX. Corporate events with material impact on shareholders' equity or stock prices set forth in Subparagraph 2, Paragraph 2, Article 36 of Securities and Exchange Act in the past year and up to the date of report: None

HSIN KUANG STEEL CO., LTD

Chairman: Alexander M.T.Su