

# Annual Report 2017

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CHENG SHIN RUBBER IND. CO., LTD.

2017 Annual Report

**Notice to readers**

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

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## **I. Letter to Shareholders**

First, we would like to thank you for all your continued support and trust over the last year. 2017 was a relatively challenging year for us. The severe fluctuations in the price of raw materials in the first half of the year and the rising of New Taiwan Dollars in the second half of the year resulted in our NT\$112.3 billion consolidated operating revenue, a 4.33% decline from the previous year. In dealing with the growing global phenomenon of M-shaped society, which attributed to synchronized polarization of sales in the tire industry, we remain optimistic as we meet the challenges of industry transformation in the process.

With the continued recovery of emerging markets and developing countries, global economy is projected to increase its growth momentum in 2018. Currently, we have 12 production bases worldwide, including 7 that are located in China. The positive growth of market demand in the China tire industry and increased brand recognition of MAXXIS are projected to boost sales volume. Our factories in India and Indonesia, which were completed and began production in the second and third quarters of 2017, are also expected to become the driving force of the Group.

In 2018, we are adopting an OEM strategy to develop our global business, which is focused on the following areas: improve customer relations by strengthening our marketing capabilities and familiarizing ourselves with the connection between customer preference and our products; create exceptional products by increasing the synergy of our research and development team; deliver revenue growth for the Group by driving the tire repair market (RE) with the vehicles assembly factories (OE), and boosting the collaboration between vehicles assembly factories (OE) with the tire repair market (RE); enhance organizational and management capabilities, talent development and use success stories to share knowledge and lessons learned. With our own version of blue ocean strategy, we are confident that we can attain the business goal of becoming the top five companies in the tire industry by 2026.

1.1 Results of Operations in 2017

(1) Results of operations based on our business plan for 2016

1. Sales and Production

(pcs. in thousands)

Products	2017 Production	2017 Sales	2016 Production	% Change
PCR	42,442	43,833	46,526	-5.79%
TBR	4,901	4,793	3,952	21.28%
MC	41,296	41,227	60,696	-32.08%
BC	92,545	87,037	71,610	21.54%
TUBE	130,228	131,194	139,463	-5.93%
OTHER TIRES	18,675	17,356	17,017	1.99%

2. Operation Summary

IFRS Consolidated

in NT\$1000

Item	2017	2016	% Change
Net Sales	112,309,166	117,387,519	-4.33%
Cost of Goods Sold	86,631,096	81,098,410	6.82%
Operating Expenses	17,279,578	17,617,696	-1.92%
Operating Profit	8,398,492	18,671,413	-55.02%
Net Profit	5,602,025	13,346,481	-58.03%

IFRS Individual

in NT\$1000

Item	2017	2016	% Change
Net Sales	19,437,442	20,637,507	-5.81%
Cost of Goods Sold	14,399,280	13,889,311	3.67%
Operating Expenses	3,612,552	3,965,777	-8.91%
Operating Profit	1,338,775	2,845,044	-52.94%
Net Profit	5,541,785	13,250,903	-58.18%

(2) Revenue Forecast and Realization

The sales revenue in 2017 totaled NT\$112.3 billion, a realization of 85% of the sales forecast, which was NT\$131.5 billion.

(3) Financial Position and Profitability Analysis  
IFRS Consolidated

in NT\$1000

Item		2017	2016	% Change	
Income Statement	Sales Revenue	112,309,166	117,387,519	-4.33%	
	Gross Profit	25,678,070	36,289,109	-29.24%	
	Net Profit	5,602,025	13,346,481	-58.03%	
Profitability	Return on Assets (ROA) (%)	3.84	8.45	-54.56%	
	Return on Equity (ROE) (%)	6.55	14.98	-56.28%	
	As a % of Paid-in Capital	Operating Profit	25.91	57.60	-55.02%
		Pre-tax Profit	25.86	55.21	-53.16%
	Net Profit Margin (%)	4.99	11.37	-56.11%	
	Earnings Per Share (NT\$)	1.71	4.09	-58.19%	

IFRS Individual

in NT\$1000

Item		2017	2016	% Change	
Income Statement	Sales Revenue	19,437,442	20,637,507	-5.81%	
	Gross Profit	5,038,162	6,748,196	-25.34%	
	Net Profit	5,541,785	13,250,903	-58.18%	
Profitability	Return on Assets (ROA) (%)	4.79	11.05	-56.65%	
	Return on Equity (ROE) (%)	6.53	15.00	-56.47%	
	As a % of Paid-in Capital	Operating Profit	4.13	8.78	-52.96%
		Pre-tax Profit	21.60	48.25	-55.23%
	Net Profit Margin (%)	28.51	64.21	-55.60%	
	Earnings Per Share (NT\$)	1.71	4.09	-58.19%	

- (4) Research and Development
- Development of lightweight spare tires
  - Development of motorcycle racing tires
  - Research project on high air pressure bicycle tire technology
  - New product R&D project on tires for the use of other vehicles
  - Research project on TBR tire technology and new product development of TBR tires
  - Research project on fuel-efficient tire technologies
  - Product development of new generation MAXXIS PCR tires

## 1.2 Outline of 2018 Business Plan

### (1) Business Strategies

- Continued revenue growth.
- Strengthening strategic and organizational capabilities.
- Glocalization—building the headquarters with global and local considerations.
- Increasing manufacturing efficiency by improving existing production capacity and expanding manufacturing facilities.
- Enhancing R&D capabilities in technologies and equipment to maximize profits.
- Ensuring safety, health and environmental protection, and implementing energy management.

### (2) Sales Volume Forecast and Basis

IFRS Consolidated

(in pcs. in thousands)

Item	2018 Volume Forecast
	Sales
PCR	38,618
TBR	5,477
MC	59,445
BC	81,175
TUBE	93,148
OTHERS	19,009
<b>TOTAL</b>	<b>296,872</b>

IFRS Individual

(in pcs. in thousands)

Item	2018 Volume Forecast
	Sales
PCR	4,945
TBR	307
MC	6,522
BC	8,006
TUBE	9,251
OTHERS	5,558
TOTAL	34,589

\*This forecast is based on the assessment made during the sales meeting held on January 25, 2018.

(3) Key Production and Distribution Policy

Our mission is to meet and exceed customer satisfaction. By understanding the needs of our customers and market trends, and applying a sales-oriented marketing strategy, we integrate products and production lines to enable comprehensive production planning. As we continue to refine and develop technologies, we are also lowering costs and increasing profitability to achieve efficiency optimization.

The strength of our business is the result of our unwavering commitment to excel in the tire industry. Our innovative solutions and ability to create value have enabled us to deliver high quality products and customized services while maximizing profits for our customers. Thank you for your continued support, we will endeavor to deliver business results and new value for our shareholders, customers and employees.

Sincerely yours,

**Lo, Tsai-Jen**  
Chairman



## II. Company Profile

### 2.1 Date of Incorporation

January 1, 1967

### 2.2 Company History

Year	Milestones
1967	The Company was established as a limited liability company with 178 employees and NT\$6,000,000 in capital, specializing in the production of motorcycle and bicycle tires. All products were approved by the Bureau of Standards, Metrology and Inspection (BSMI) under the Ministry of Economic Affairs to use the CNS <sup>®</sup> symbol.
1969	The Company became a company limited by shares on December 19, and began the collaboration of technology and business with a Japanese corporation, Kyowa Ltd. The capital of the Company was increased to NT\$24,000,000, and the export business was expanded.
1971	Our product quality was approved by the US Department of Transportation to use the DOT symbol. The Company also developed an excellent reputation in the overseas markets. Employees increased to 600.
1972	Factory construction was completed at the current site at the time, and officially became part of the production process. The sales of the products went from domestic-oriented to export-oriented.
1973	The Company began planning and acquiring technical knowledge and adding equipment to manufacture automobile tires.
1974	The Company was awarded as the number one rubber exporter in the industry. The capital of the Company was increased to NT\$120,000,000. The Company began manufacturing and selling truck tires in June.
1975	The Company implemented strict product quality control, and purchased the latest equipment for quality control. The office in Los Angeles, USA was set up. Employees increased to 1,200.
1976	The Company, in accordance with new CNS standards, obtained further approval from BSMI to use the <sup>®</sup> symbol for the outer tires of large trucks, small trucks, transport cars, agriculture vehicles, and motorcycles.
1977	The Taipei office, responsible for export business, was established in the Taipei World Trade Building. The capital of the Company was increased to NT\$220,000,000.
1980	The factory was awarded a product quality A rating by the Ministry of Economic Affairs. The capital of the Company was increased to NT\$420,000,000, and employees of the Company were increased to 2,200.
1981	The Zhong Zhuang Plant was completed, which specializes in the production of high quality bicycle tires. The capital of the Company increased to NT\$583,800,000.
1982	The Company signed a technical cooperation agreement with Toyo Tire & Rubber Co.,

	Ltd., and established a factory for the latest radial tires for passenger cars. The capital of the Company increased to NT\$720,000,000.
1983	Total domestic and export sales reached NT\$2,708,000,000. The Company was awarded number one in the tire industry in Taiwan. Full efforts were made to research and develop passenger car radial tires. The capital of the Company increased to NT\$828,000,000.
1984	The Company was received the Japanese government's approval to sue the Japanese Industrial Standard Symbol for bicycle and motorcycle tires and tubes. The Company began producing and marketing passenger car radial tires and expanded its export market. The capital of the Company increased to NT\$910,800,000. The total domestic and export sales turnover was NT\$2,890,000,000.
1986	Total domestic and export sales turnover of the Company reached NT\$3,770,000,000. The bicycle tire sales volume reached 20,000,000 pcs. The Company invested in new mixing machines in order to increase production.
1987	The Xi Zhou Plant was built and scheduled to produce bicycle tires. The capital of the Company reached NT\$1,332,045,000. The Company and Toyo Rubber Co., Ltd. established Yang Industrial Co., Ltd. jointly to co-produce shock proof rubber auto parts. The automobile tires and inner tubes, tires for industrial vehicles, and farming machinery manufactured by the Company received the Japanese Industrial Standards Symbol. The Company was listed on the Taiwan Stock Exchange on December 7.
1988	The Xi Zhou Plant officially began production of bicycle tires. The Company's Main Plant added radial tire production capacity. The capital of the Company increased to NT\$1,625,094,900. The Company and Kyowa Ltd jointly established a tire sales corporation in Osaka to expand output in Japan. The Company also invested in domestic Pacific Securities Co., Ltd. to diversify investment avenues.
1989	The Main Plant continued to expand facilities for the production of radial tire. The capital of the Company increased to NT\$2,031,368,630. The Company invested in the establishment of Cheng Shin Rubber (Hong Kong) Limited.
1990	The Company's sales turnover exceeded NT\$5,100,000,000. The paid-in capital increased to NT\$2,437,640,000. The Company invested in the establishment of Cheng Shin Rubber USA, Inc. and San Yueh Textile Company.
1991	Cheng Shin Germany was established in March. On September 16, Cheng Shin Germany relocated to the Netherlands and was renamed Cheng Shin Rubber (Europe) Ltd. in order to expand trades in Europe. The paid-in capital of the Company increased to NT\$2,632,653,750. On October 17, the Ministry of Economic Affairs approved that the Company may increase its capital by US\$20,000,000 through Cheng Shin Rubber Company (Hong Kong) Limited, and indirectly invest in the establishing of Xiamen Cheng Shin Rubber Industry Co., Ltd.

1992	The sales turnover exceeded NT\$6,000,000,000. The paid-in capital of the Company increased to NT\$3,159,184,500. The Company was active in the production of radial tire expansion plan. General Manager Chen, Yun-Hwa came onboard on August 1. The business license of Cheng Shin Rubber (Europe) Limited was revoked.
1993	Paid-in capital increased to NT\$3,633,062,180. Automated storage was completed and in use in July. The radial tire expansion plan was completed and began testing and production. CST Trading Ltd. was approved by the Investment Commission and established in November to indirectly invest in mainland China to set up Cheng Shin Tire & Rubber (China) Co., Ltd. We received the international standard quality assurance system ISO 9001 certification in December as the first company in the tire industry to obtain this qualification in the Republic of China.
1994	Paid-in capital increased to NT\$4,214,352,130. In August, the Investment Commission approved the US\$15,000,000 investment in the capital increase of Cheng Shin Rubber (Xiamen) Ind. Ltd. The Ford F1 Quality Certification was awarded to the Company in November.
1995	Paid-in capital increased to NT\$5,015,079,030. The Investment Commission approved the US\$30,000,000 investment for increasing equity capital of Cheng Shin Tire & Rubber (China) Co., Ltd in April.
1996	Paid-in capital increased to NT\$5,515,079,000. In January, Toyo Tire & Rubber Co., Ltd. invested in Cheng Shin Tire & Rubber (China) Co., Ltd., to enable capital increase to US\$72,000,000, accounted for 30% of the equities. In August, the Investment Commission approved the US\$2,500,000 investment for the establishment of Cheng Shin-Toyo (Kunshan) Machinery Co., Ltd. with a capital of US\$5,000,000 which was jointly invested with Toyo Tire & Rubber Co., Ltd.; the Company's investment accounted for 50% of the equities. The second phase of Cheng Shin Rubber (Xiamen) Ind. Ltd. was completed and formally entered into production.
1997	Paid-in capital increased to NT\$6,068,245,620. On May 29, the QS9000 quality certification was obtained. The Cheng Shin Tire & Rubber (China) Co., Ltd. factory construction was completed and formally began production in July. Investment Commission approval was obtained in July to establish Maxxis International Co., Ltd. in the Cayman Islands to indirectly invest in Cheng Shin Rubber (Xiamen) Ind. Ltd.
1998	Paid-in capital increased to NT\$6,796,435,090. In October, the Investment Commission approved an indirect investment via its subsidiary, MAXXIS International Co., Ltd. in Tianjin Tafeng Rubber Ind. Co., Ltd.; the capital of which is US\$12,000,000. On October 20, the Company's Xizhou Plant was awarded as a first class distinguished plant under Japan's Total Productive Maintenance (TPM).
1999	Paid-in capital increased to NT\$747607860. In November, a US technology center was set up by the US subsidiary.

2000	Paid-in capital increased to NT\$7,849,882,530. The Company won the ROC National Quality Award in October. In November, the Company received the National Industrial Waste Reduction Award from the Industrial Development Bureau, Ministry of Economic Affairs. In December, the Company was awarded the group gold medal by the ROC Proposal Association.
2001	Paid-in capital increased to NT\$8,360,124,890. The Xizhou Plant was awarded as the first class distinguished plant under Japan's Total Productive Maintenance (TPM).
2002	The Investment Commission approved an indirect investment in the capital increase of Cheng Shin Tire & Rubber (China) Co., Ltd. in the amount of US\$20,000,000 via the Company's subsidiary; CST Trading Ltd. MAXXIS tires won the Forbes Magazine 2002 Global Award for enterprise excellence. The Company's capital increased to NT\$8,861,732,380. On November 1, the Investment Commission approved the establishment of Cheng Shin Tire (Xiamen) Co., Ltd. through indirect investment, and on December 31, approved the investment in establishing a new company, Maxxis International (Thailand) Co., Ltd.
2003	On March 6, Maxxis International (Thailand) Co., Ltd. officially started the construction of its plant. On September 23, the Company's MAXXIS brand was awarded by the Ministry of Economic Affairs and the international brand consultancy firm (INTERBRAND GROUP) as one of Taiwan's top twenty international brands, ranked fifth; the brand value was estimated at US\$256 million. In addition, the capital of the Company increased to NT\$9,570,670,970 by the end of 2003.
2004	Cheng Shin Tire (Xiamen) Co., Ltd. and Maxxis International (Thailand) Co., Ltd. completed the constructions and entered into vehicle testing and trial production stage. On October 4, the Company's MAXXIS brand won the 2004 Taiwan top twenty international brands, which was ranked sixth with a brand value of US\$264 million. Furthermore, the Company's paid-in capital increased to NT\$10,489,455,380.
2005	Maxxis International (Thailand) Co., Ltd. completed its first phase of all-round production, with daily production of 6,000 passenger car tires. Cheng Shin Tire (Xiamen) Co., Ltd.'s daily production was 700 all steel radial tires. The European technology center was established. The Company's MAXXIS brand continued to be in Taiwan's top twenty international brands in 2005, with a brand value of US\$264 million. In addition, the Company's paid-in capital increased to NT\$11,381,059,080.
2006	Taiwan Cheng Shin R&D center was completed and soon opened for operations. Maxxis International (Thailand) Co., Ltd. and the expansion of production capacity of Cheng Shin Tire (Xiamen) Co., Ltd. were completed. Cheng Shin Rubber (Vietnam) Ind. Co., Ltd. began construction. The MAXXIS brand was once again awarded as Taiwan's Top Twenty International Brand in 2006, with a brand value of US\$271 million. The company's paid-in capital increased to NT\$12,177,733,220.

2007	The first phase of construction of Cheng Shin Rubber (Vietnam) Ind. Co., Ltd.'s factory was completed, and started trial production in March, which was projected to formally begin production in August. XiaMen Cheng Shin Enterprise Co., Ltd. began production in January. The Company's MAXXIS brand continued to be awarded as Taiwan's top twenty international brands in 2017, with a brand value of US\$309 million. The Company's paid-in capital increased to NT\$13,030,174,540.
2008	Construction of Plant B of Maxxis International (Thailand) Co., Ltd.; upgrade of production capacity of Cheng Shin Tire & Rubber (China) Co., Ltd. and Cheng Shin Tire (Xiamen) Co., Ltd.; Cheng Shin Rubber (Vietnam) Ind. Co., Ltd. was all-round operational. The Company's MAXXIS brand continued to be one of Taiwan's top twenty international brands in 2008, with a brand value of US\$346 million. The Company's paid-in capital increased to NT\$14,984,700,720.
2009	Maxxis International (Thailand) Co., Ltd. completed the first phase of the construction of its Plant B and started trial production in March, and formally began production in May. On November 13, the Investment Commission approved an indirect investment of US\$20,000,000 to establish Cheng Shin (Xiamen) International Automobile Cultural Center Co., Ltd. via MAXXIS International Co., Ltd. On December 16, the Investment Commission approved the acquisition by the Company's subsidiary of 22.36% of the equity interest in Cheng Shin Tire & Rubber (China) Co., Ltd. (which was held by Toyo Tire & Rubber Co., Ltd.). The Company's MAXXIS brand continued to be one of Taiwan's top twenty international brands in 2009, with a brand value of US\$345 million. The Company's paid-in capital increased to NT\$16,483,170,790.
2010	On April 16, the Investment Commission approved the Company to indirectly invest US\$30,000,000 in the capital increase of Cheng Shin Rubber (Xiamen) Ind. Ltd. via subsidiary MAXXIS International Co., Ltd. On April 23, the Investment Commission approved an investment of US\$30,000,000 via the Company's subsidiary CST Trading Limited to establish Cheng Shin Tire & Rubber (Chong Qing) Co., Ltd., which began construction in June. In October, the Douliu Plant and Xiamen Jimei plant began construction. On November 30, the Investment Commission approved the Company to participate in the capital increase of Cheng Shin Rubber (Xiamen) Ind. Ltd. via subsidiary, MAXXIS International Co., Ltd. in the amount of US\$45,000,000. The Company's MAXXIS brand continues to be one of Taiwan's top twenty international brands in 2010, with a brand value of US\$391 million. The Company's paid-in capital increased to NT\$20,603,963,490.
2011	On February 17, the Board of Directors approved an investment in the amount of US\$50,000,000 via the subsidiary, Cheng Shin Tire & Rubber (China) Co., Ltd. to participate in the capital increase of Cheng Shin Tire & Rubber (Chong Qing) Co., Ltd. On August 11, the Investment Commission approved the Company's investment of

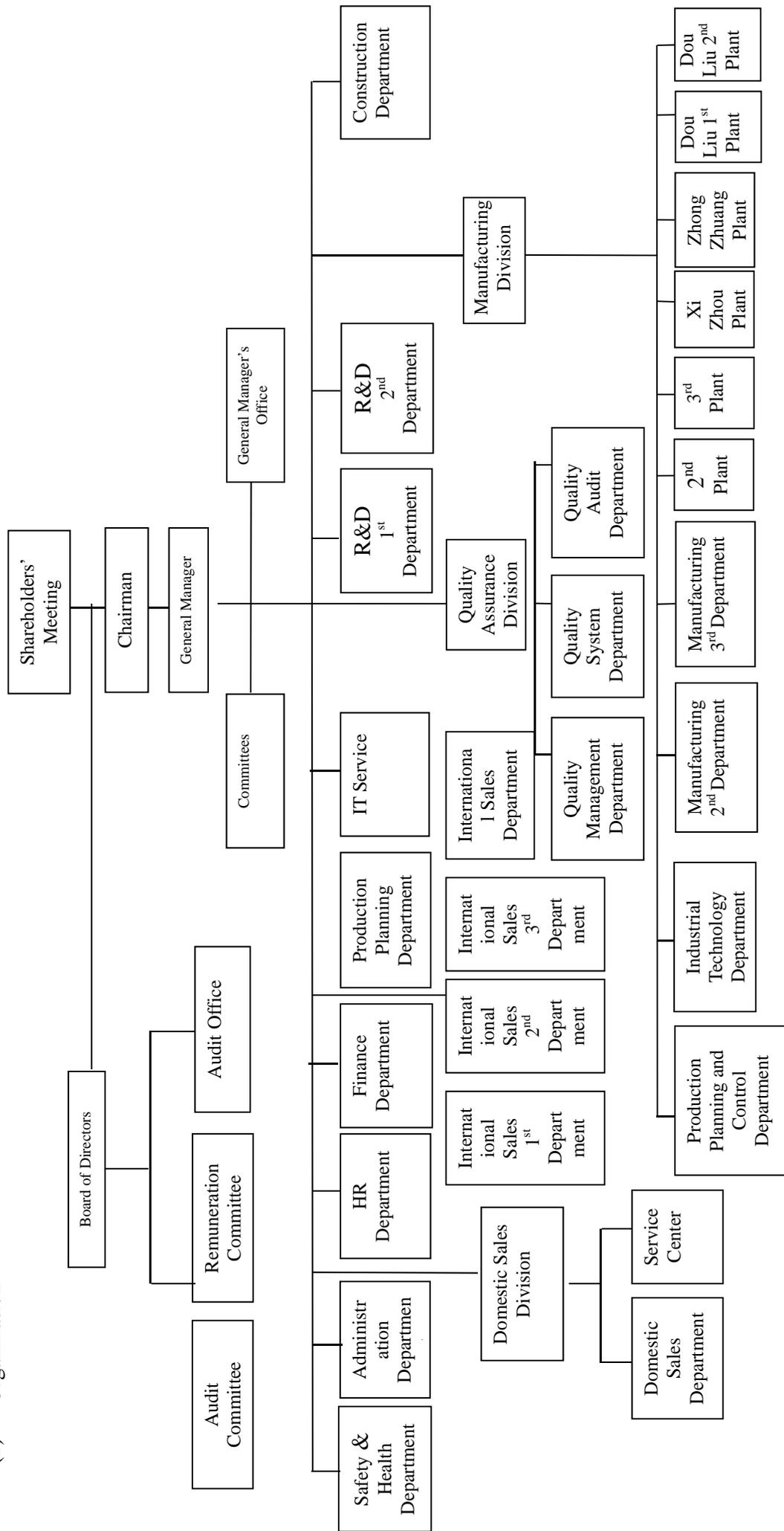
	<p>US\$18,000,000 in the capital increase of the Cheng Shin Tire (Xiamen) Co., Ltd. via subsidiary, MAXXIS International Co., Ltd. On July 19, the Board of Directors approved the establishment of the Remuneration Committee of the Company. On October 20, the Investment Commission approved the Company's indirect investment in the amount of RMB17,000,000 in CST Rubber (Zhangzhou) Ind. Co., Ltd. via subsidiary MAXXIS International (HK) Ltd. On December 6, the Board of Directors approved a capital increase of US\$15,000,000 in Cheng Shin Rubber (Vietnam) Ind. Co., Ltd. via subsidiary MAXXIS Trading Ltd. The Company's MAXXIS brand continued to be one of Taiwan's top twenty international brands in 2011, with a brand value of US\$335 million. The Company's paid-in capital increased to NT\$24,724,756,190.</p>
2012	<p>On March 1, the Board of Directors approved the investment of US\$20,000,000 in the capital increase of Cheng Shin Tire &amp; Rubber (Chong Qing) Co., Ltd. through the Company's subsidiary Cheng Shin Tire &amp; Rubber (China) Co., Ltd. Cheng Shin Tire &amp; Rubber (China) Co., Ltd. tire testing plant began operations in November 2012. The Company's MAXXIS brand continued to be one of Taiwan's top twenty international brands in 2012, with a brand value of US\$331 million. The Company paid-in capital increased to NT\$28,186,222,060.</p>
2013	<p>On October 15, the Board approved the proposal to make investments in Indonesia. On November 26, the Investment Commission approved the investment of RMB75,000,000 in the capital increase of CST Rubber (Zhangzhou) Ind. Co., Ltd. via its subsidiary MAXXIS International (HK) Ltd. The Company's MAXXIS brand continued to be one of Taiwan's top twenty international brands in 2013, with a brand value of US\$ 370 million. The Company was named the top 50 best listed companies in 2013 by Forbes Magazine. The Company's paid-in capital increased to NT\$32,414,155,360.</p>
2014	<p>On May 13, the Board approved the acquisition of the right to use lands in Indonesia's Greenland International Industrial Center. On November 11, the Board approved the increase of investment in India. The Company's MAXXIS brand continued to be one of Taiwan's top twenty international brands in 2014, with a brand value of US\$367 million.</p>
2015	<p>The Company's MAXXIS brand continues to be one of Taiwan's top twenty international brands in 2015, with a brand value of US\$348 million.</p>
2016	<p>On November 9, the Board approved the incorporation of PT. MAXXIS TRADING INDONESIA. The Company's MAXXIS brand continues to be one of Taiwan's top twenty international brands in 2016, with a brand value of US\$317 million.</p>
2017	<p>On June 15, the Company established its first Audit Committee. The Board approved the proposal to participate in the capital increase of MAXXIS Rubber India Private</p>

	Limited in the amount of INR 1,799,985,410 using its own capital, which officially began production in August 2017. And PT MAXXIS International Indonesia began production in October 2017. The Company's MAXXIS brand continues to be one of Taiwan's top twenty international brands in 2017, with a brand value of US\$317 million.
2018	On January 24, the Board approved the proposal to participate in the capital increase of Maxxis Rubber India Private Limited in the amount of INR 999,991,890 and PT MAXXIS International Indonesia in the amount of US\$29,998,875 using its own capital. The Company has a brand value of US\$324 million.

### III. Corporate Governance Report

#### 3.1 Organization

##### (1) Organization



(2) Major Department Functions

<b>Department</b>	<b>Functions</b>
General Manager's Office	Plan the medium and long term development strategies of the Company and the procurement of raw materials.
Audit Office	Audit and evaluate the performance of departmental operating functions and the implementation of internal control policies.
Safety & Health Department	Plan and supervise the risk management of labor safety and health and environmental measures of all departments.
Administration Department	Manage all kinds of procurement (excluding raw materials) and general affairs.
Human Resource Department	Short, medium and long term human resources planning, personnel compensation, welfare and training.
Finance Department	Manage operating capitals, as well as matters pertaining to accounting and shares.
Production Planning Department	Manage manufacturing and sales planning and coordinate purchase orders of the Group.
IT Service Department	Implement the company computerization, and control computer data and computer software security.
Domestic Sales Division	Determine domestic sales strategies and goals.
Domestic Sales Department	Implement sales policy and marketing plans of all kinds of tires and rubber products in the domestic market.
Customer Service Center	Provide product consultation, handle customer complaints, review, manage and resolve defective/malfunctioned products returned by the customers.
International Sales 1 <sup>st</sup> Department	Sell tires for the use of new vehicle assembly and repair market, develop policies, supervise and manage relevant matters in the global market (excluding Taiwan)
International Sales 2 <sup>nd</sup> Department	Develop new customers and manage sales and services related to the OE and BC/MC repair market in Japan
International Sales 3 <sup>rd</sup> Department	Develop new customers and manage sales and services related to the OE factories and repair market of bike tires around the world
International Sales Department	Implement and manage global sales policy (excluding Taiwan) and promotion planning.
Quality Assurance Division	Plan, implement and manage quality assurance policy, quality enhancement and standardization of the whole Company.
Quality Management Department	Plan, implement and manage the standardization activity of intermediate process and the inspection of the manufacturing process.
Quality System Department	Establish, maintain and manage the quality management system and coordinate and manage internal and external audits.
Quality Audit Department	Manage supplier quality and audit compliance as requested by customers.

<b>Department</b>	<b>Functions</b>
R&D 1 <sup>st</sup> Department	Research and develop rubber materials and formula, and verify designed materials and formula.
R&D 2 <sup>nd</sup> Department	Research and develop tire structure and pattern, and verify designed structure and pattern.
Manufacturing Division	Implement or examine the operation and research plan of all manufacturing departments and plants.
Production Planning and Control Department	Adopt production management standards, and manage and develop strategies for production planning.
Industrial Technology Department	Develop technologies for the product manufacturing process, research new equipment and introduce new production methods.
Manufacturing 2 <sup>nd</sup> Department	Manufacture tires for motorcycles, industrial vehicles, agricultural mechanical vehicles, passenger cars and trucks.
Manufacturing 3 <sup>rd</sup> Department	Manufacture tires for passenger cars, industrial vehicles, pickup trucks, tanks and other trucks.
2 <sup>nd</sup> Plant	Manufacture rubber made airless tire products.
3 <sup>rd</sup> Plant	Manufacture various kinds of tubes.
Xi Zhou Plant	Produce rubber compounds and manufacture tires for bicycles, agricultural-industrial vehicles and motorcycles.
Zhong Zhuang Plant	Manufacture bicycle tires.
Dou Liu 1 <sup>st</sup> Plant	Produce rubber compounds and manufacture rubber-coated bead and belt steel cord.
Dou Liu 2 <sup>nd</sup> Plant	Manufacture radial tires.
Construction Department	Design graphics for the development of mechanical devices and manage production.

### 3.2 Directors, Independent Directors and Management Team

#### (1) Directors and Independent Directors

April 16, 2018

Title & Name	Gender	Nationality/ Country of Origin	Date of Election	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within the second degree of kinship			
						Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman Lo, Tsai-Jen	Male	Republic of China	2017.06.15	3	2014.06.17	283,225,502	8.74%	283,225,502	8.74%	27,996,793	0.86%	0	0%	Graduated from the Department of Marketing and Materials Management, Newark College of Engineering	Chairman	Director	Chen, Yun-Hwa Chen, Shiu-Hsiung Chiu-Li-Ching	Within the second degree of kinship; within the second degree of kinship; spouse	
Director Xie Shun Investment Corporation, represented by Chen, Shiu-Hsiung	-	Taipei	2017.06.15	3	2017.06.15	15,580,000	0.48%	15,580,000	0.48%	0	0%	0	0%	NA	NA	NA	NA	NA	Within the second degree of kinship; within the second degree of kinship; within the second degree of kinship; within the first degree of kinship
Director Jiu Shun Investment Corporation, represented by Chen, Yun-Hwa	-	Taipei	2017.06.15	3	2017.06.15	13,391,000	0.41%	13,391,000	0.41%	0	0%	0	0%	NA	NA	NA	NA	NA	Within the second degree of kinship; within the second degree of kinship; within the second degree of kinship; within the second degree of kinship
Director Hong Jing Investment Corporation, represented by Chiu, Li-Ching	Female	Changhua County	2017.06.15	3	2017.06.15	32,672,000	1.01%	32,822,000	1.01%	0	0%	0	0%	Honorary Doctor of Management, National Yunlin University of Science and Technology	NO	Director	Chen, Shiu-Hsiung Lo, Tsai-Jen Chiu-Li-ching	Within the second degree of kinship; within the second degree of kinship; within the second degree of kinship; within the second degree of kinship	
						27,996,793	0.86%	27,996,793	0.86%	283,225,502	8.73%	32,822,000	1.01%	Graduated from Department of Economics, National Taiwan University	NO	Director	Lo, Tsai-Jen Chen, Yun-Hwa Chen, Shiu-Hsiung	Spouse; within the second degree of kinship; within the second degree of kinship	

Director Min Xin Investment Corporation, represented by Cheng, Han-Chi	-	Taipei City	2017. 06.15	2017. 06.15	6,425,000	0.20%	6,425,000	0.20%	0	0%	0	0%	NA	NA	NA	within the first degree of kinship
	Female	Republic of China	2017. 06.15	2017. 06.15	6,534,867	0.20%	6,534,867	0.20%	88,921	0.00%	0	0%	NO	Chen, Shiu-Hsiung	NO	NO
Director Tseng, Shung-Chu	Male	Republic of China	2017. 06.15	2017. 06.15	21,688,580	0.67%	21,688,580	0.67%	0	0%	0	0%	Chairman of Merida Industry Co., Ltd; Chairman of Taiwan Bicycle Association	NO	NO	NO
	-	Changhua County	2017. 06.15	2008. 06.13	11,131,695	0.34%	11,131,695	0.34%	0	0%	0	0%	NA	NA	NA	NA
Director Horming Yih Investment Corporation, represented by Lin, Hung-Yü	Male	Republic of China	2017. 06.15	2008. 06.13	433	0%	433	0%	7,553	0%	0	0%	Deputy General Manager	NO	NO	NO
	-	Changhua County	2017. 06.15	2008. 06.13	11,131,695	0.34%	11,131,695	0.34%	0	0%	0	0%	NA	NA	NA	NA
Director Horming Yih Investment Corporation, represented by Lee, Chin-Chang	Male	Republic of China	2017. 06.15	2008. 06.13	24,874	0%	24,874	0%	725	0%	0	0%	Department of Mechanical Engineering, Nanya Institute of Technology	NO	NO	NO
	-	Changhua County	2017. 06.15	2008. 06.13	11,131,695	0.34%	11,131,695	0.34%	0	0%	0	0%	NA	NA	NA	NA



### Major Shareholders of the Corporate Shareholders

Name of Corporate Shareholders	Major Shareholders
Xie Shun Investment Corporation	Chen, Han-Hsin (0.59%); Chen, Po-Chia (1.19%); Cheng, Han-Chi (0.59%)
Jiu Shun Investment Corporation	Chen, Li-Chen (0.33%); Chen, Chi-Ying (0.32%); Chen, Ping-Hao (0.72%)
Hong Jing Investment Corporation	Luo, Yuan-Yu (44.95%); Lo, Yuan-Long (1.75%)
Min Xin Investment Corporation	Cheng, Han-Chi (89.33%)
Horning Yih Investment Corporation	Luo, Ming-Han (20%); Lo, Tsai-Jen (15%); Lo, Ming-I (12.5%); Lo, Min-Ling (12.5%); Luo, Jye (10%); Chen, Yun-Hwa (10%); Chen, Shiu-Hsiung (10%)

(2) Professional qualifications and independence analysis of directors and independent directors

Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	Criteria	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 Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	
Lo, Tsai-Jen	N	N	Y					V		V		V	V	N/A
Chen, Shiu-Hsiung (Representative of Xie Shun Investment Corporation)	N	N	Y					V		V		V		N/A

Chen, Yun-Hwa (Representative of Jiu Shun Investment Corporation)	N	N	Y	V						V		V		V		N/A
Chiu, Li-Ching (Representative of Hong Jing Investment Corporation)	N	N	Y	V						V	V	V		V		N/A
Cheng, Han-Chi (Representative of Min Xin Investment Corporation)	N	N	Y	V		V				V	V	V		V		N/A
Tseng, Shung-Chu	N	N	Y	V	V	V	V	V		V	V	V	V			N/A
Lee, Chin-Chang (Representative of Horning Yih Investment Corporation)	N	N	Y				V	V	V		V	V	V			N/A
Lin, Hung-Yu (Representative of Horning Yih Investment Corporation)	N	N	Y				V	V	V	V	V	V	V			N/A
Hsu, En-De	Y	Y	Y	V	V	V	V	V	V	V	V	V	V	V		3
Too, Jui-Rze	Y	Y	N	V	V	V	V	V	V	V	V	V	V	V		0
Chen, Shuei-Jin	Y	Y	Y	V	V	V	V	V	V	V	V	V	V	V		2

Note 1: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company's affiliates. Not applicable in cases where the person is an independent director of the Company's parent company or any subsidiary appointed in accordance with the Regulations Governing the Appointment of Independent Directors and Compliance Matters for Public Companies or other local laws and regulations.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within

the third degree of kinship, of any of the persons in the preceding three subparagraphs.

- (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
- (7) Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX.
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Act.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

Note  
2: If the Company's independent director or independent supervisor is concurrently serving as an independent director or independent supervisor of another company, they shall explain their positions in the other companies.

## (3) Information of General Manager, Deputy General Manager, Senior Manager and Officer of All Departments and Branch Offices

April 16, 2018

Title	Name	Gender	Nationality	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Major Experience (Education)	Other Position	Managers who are Spouses or Within the second degree of Kinship			Employee Stock Options
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
General Manager (Taiwan)	Lo, Tsai-Jen	Male	ROC	2016/11/09	283,225,502	8.74%	283,225,502	8.74%	27,996,793	0.86%	Department of Marketing and Materials Management, Newark College of Engineering	N	Chairman General Manager	Lo, Tsai-Jen Chen, Shiu-Hsiung	Same person; Second-degree relative	N
General Manager (Xiamen)	Chen, Shiu-Hsiung	Male	ROC	1997/04/01	57,819,456	1.78%	52,945,516	1.63%	31,280,000	0.97%	College of Chemical Industry, Shizuoka University	N	Chairman and General Manager	Lo, Tsai-Jen	Second-degree relative of spouse; Second-degree relative of spouse	N
Deputy General Manager	Lin, Hung-Yu	Male	ROC	2007/02/01	433	0%	7,553	0%	0	0%	Department of Chemical Engineering, National Taipei Junior College	N	N	N	N	N
Deputy General Manager	Lee, Chin-Chang	Male	ROC	2007/02/01	24,874	0%	725	0%	0	0%	Department of Mechanical Engineering, Nanya Junior College	N	N	N	N	N
Deputy General Manager	Weng, Ming-Chun	Male	ROC	2007/02/01	12,095	0%	0	0%	0	0%	Department of Business Administration, Feng Chia University	N	N	N	N	N
Deputy General Manager (Note)	Huang, Chung-Jen	Male	ROC	2007/02/01	10,882	0%	165	0%	0	0%	Department of Industrial Engineering, Tunghai University	N	N	N	N	N
Deputy General Manager	Peng Wen-Hsing	Male	ROC	2007/02/01	4,326	0%	0	0%	0	0%	Department of Mechanical Engineering, Loughwa Junior College	N	N	N	N	N
Deputy General Manager	Huang Chieh-Hsiang	Male	ROC	2008/07/01	233,322	0%	0	0%	0	0%	Deputy General Manager of Cheng Shin Rubber (Xiamen) Ind., Ltd.	N	N	N	N	N
Deputy General Manager	Hsu, Chih-Ming	Male	ROC	2012/04/01	844	0%	4,665,356	0.14%	0	0%	PhD, Department of Electrical Engineering, National Tsing Hua University	N	General Manager	Chen, Shiu-Hsiung	First-degree relative of spouse	N
Deputy General Manager	Lin, Yu-Yu	Male	ROC	2012/08/01	2,242	0%	2,793	0%	0	0%	Department of Industrial Engineering, National Taipei Junior College	N	N	N	N	N

Deputy General Manager	Liao, Cheng-Yao	Male	ROC	2013/08/01	400	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of English Studies, National Taichung Business College	N	N	N	N	N	N
Deputy General Manager	Lee, Hung-Ko	Male	ROC	2016/07/01	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Mechanical Engineering, National Chin Yi Junior College	N	N	N	N	N	N
Deputy General Manager	Liu, Chao-Sheng	Male	ROC	2016/07/01	4,326	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Master, Department of Business Management, National Yunlin University of Science & Technology	N	N	N	N	N	N
Deputy General Manager	Lai, Kuo-Ti	Male	ROC	2016/07/01	2,438	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Accounting Statistics, Tamsui Institute of Business Administration	N	N	N	N	N	N
Senior Manager	Lin, Chen-Chieh	Male	ROC	1994/04/01	4,997	0%	22,987	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Industrial Engineering, Chun Yuan Christian University	N	N	N	N	N	N
Senior Manager	Wei, Chi-Chiang	Male	ROC	1998/09/01	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Chinese Literature, National Chengchi University	N	N	N	N	N	N
Senior Manager	Ho, Chin-Fang	Male	ROC	2008/07/01	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Chemical Engineering Technically, National Taipei Institute of Technology	N	N	N	N	N	N
Senior Manager	Lin, Chin-Chuan	Male	ROC	2010/05/01	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Master, Department of Mechanical Engineering, National Chiao Tung University	N	N	N	N	N	N
Senior Manager	Chang, Chuan-Shun	Male	ROC	2010/05/01	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Industrial Management, National Chin Yi Junior College	N	N	N	N	N	N
Senior Manager	Mao, Yu-Fu	Male	ROC	2010/05/01	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of International Business, Fu Jen Catholic University	N	N	N	N	N	N
Senior Manager	Huang, Kuo-Tsai	Male	ROC	2010/04/01	60,195	0%	28,243	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Chemistry, National Chung Hsing University	N	N	N	N	N	N
Senior Manager	Huang, Yang-Hsun	Male	ROC	2010/04/01	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Master, Department of Political Science, National Taiwan University	N	N	N	N	N	N
Senior Manager	Chen, Ying-Kuang	Male	ROC	2010/09/13	27,884	0%	4,604	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Chemical Engineering, National Taipei Junior College	N	N	N	N	N	N
Senior Manager	Chang, Ghi-Jung	Male	ROC	2012/08/01	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Mechanical Engineering, Feng Chia University	N	N	N	N	N	N
Senior Manager	Chang, Chin-Lu	Male	ROC	2012/08/01	0	0%	1,000	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Mechanical Engineering, Oriental Industrial College	N	N	N	N	N	N
Senior Manager	Liu,	Male	ROC	2012/08/01	0	0%	396	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	Department of Industrial Engineering, Feng Chia University	N	N	N	N	N	N



(4) Remuneration of Directors (Including Independent Directors), Supervisors, General Managers, and Deputy General Mangers  
 1. Remuneration of Directors (Including Independent Directors)

December 31, 2017  
 Unit: in NT\$1000

Title	Name	Remuneration				Relevant Remuneration Received by Directors Who are Also Employees						Total Compensation (A+B+C+D+E+F+G) to Net Income After Tax Ratio (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary			
		Base Compensation (A)	Pension (B)	Bonus to Directors (C)	Business Expense Allowances (D)	Total Remuneration (A+B+C+D) to Net Income After Tax Ratio (%)	Salary, Bonuses, and Allowances (E)	Pension (F)	Profit Sharing- Employee Bonus (G)	Exercisable Employee Stock Options (H)	New Restricted Employee Shares (I)	The company	Companies in the financial statements				
Chairman	Lo, Tsai-Jen																
Director	Xie Shun Investment Corporation, represented by Chen, Shiu-Hsiung																
Director	Jiu Shun Investment Corporation, represented by Chen, Yun-Hwa																
Director	Hong Jing Investment Corporation, represented by Chiu, Li-Ching	2,880	0	107,617	316	2.00%	35,186	10,417	356	0	0	0	0	0	2.83%	2.80%	0
Director	Min Xin Investment Corporation, represented by Cheng, Han-Chi																
Director	Tseng, Shung-Chu																



NT\$10,000,000						
NT\$10,000,000 (inclusive) ~ NT\$15,000,000	Hong Jing Investment Corporation, Min Xin Investment Corporation, Horming Yih Investment Corporation; Tseng, Shung-Chu	Hong Jing Investment Corporation, Min Xin Investment Corporation, Horming Yih Investment Corporation; Tseng, Shung-Chu	Hong Jing Investment Corporation, Min Xin Investment Corporation, Horming Yih Investment Corporation; Tseng, Shung-Chu	Hong Jing Investment Corporation, Min Xin Investment Corporation, Horming Yih Investment Corporation; Tseng, Shung-Chu	Hong Jing Investment Corporation, Min Xin Investment Corporation, Horming Yih Investment Corporation; Tseng, Shung-Chu	Hong Jing Investment Corporation, Min Xin Investment Corporation, Horming Yih Investment Corporation; Tseng, Shung-Chu
NT\$15,000,000 (inclusive) ~ NT\$30,000,000	Xie Shun Investment Corporation; Jiu Shun Investment Corporation	Xie Shun Investment Corporation; Jiu Shun Investment Corporation	Xie Shun Investment Corporation; Jiu Shun Investment Corporation	Xie Shun Investment Corporation; Jiu Shun Investment Corporation	Xie Shun Investment Corporation; Jiu Shun Investment Corporation	Xie Shun Investment Corporation; Jiu Shun Investment Corporation
NT\$30,000,000 (inclusive) ~ NT\$50,000,000	Lo, Tsai-Jen	Lo, Tsai-Jen	Lo, Tsai-Jen	Lo, Tsai-Jen	Lo, Tsai-Jen	Lo, Tsai-Jen
NT\$50,000,000 ~ NT\$100,000,000	-	-	-	-	-	-
Over NT\$100,000,000	-	-	-	-	-	-
Total	12	12	12	12	12	12

\*The remuneration contents disclosed in this table are different from the concept of income specified in the Income Tax Act, thus the purpose of this table is for information disclosure only, rather than taxation.

## 2. Remuneration of Supervisors

December 31, 2017

Unit: in NT\$1000

Title	Name	Remuneration				Business expense allowances (C)		Total amount of A, B and C to after-tax net income ratio (%)		Compensation Paid to Supervisors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Bonus (B)		The company	Companies in the financial statements (Note 5)	The company	Companies in the financial statements (Note 5)	
		The company	Companies in the financial statements (Note 5)	The company	Companies in the financial statements (Note 5)					
Supervisor	Tseng, Shung-Chu	0	0	0	36	36	0.0006%	0.0006%	0	
Supervisor	Chiu, Li-Ching									
Supervisor	Cheng, Han-Chi									

Note: The Company established the Audit Committee on June 15, 2017 to replace the supervisors.

### Table of Range of Remuneration

Range of Remuneration	Name of Supervisors	
	The company	Companies in the consolidated financial statements
Under NT\$ 2,000,000	Chiu, Li-Ching; Cheng, Han-Chi; Tseng, Shung-Chu	Chiu, Li-Ching; Cheng, Han-Chi; Tseng, Shung-Chu
NT\$2,000,000 (inclusive) ~ NT\$5,000,000	-	-
NT\$5,000,000 (inclusive) ~ NT\$10,000,000	-	-
NT\$10,000,000 (inclusive) ~ NT\$15,000,000	-	-
NT\$15,000,000 (inclusive) ~ NT\$30,000,000	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
<b>Total</b>	<b>3</b>	<b>3</b>

\* The remuneration contents disclosed in this table are different from the concept of income specified in the Income Tax Act, thus the purpose of this table is for information disclosure only, rather than taxation.

### 3. Remuneration of the General Manager and Deputy General Manager

December 31, 2017

Unit: in NT\$1000

Title	Name	Salary(A)		Pension (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Total amount of A, B, C and D to after-tax net income ratio (%)		Exercisable Employee Stock Options		New Restricted Employee Shares		Compensation from any Invested Company Other Than the Company's Subsidiary
		The company	Companies in the financial statements	The company	Companies in the financial statements	The company	Companies in the financial statements	The company	Cash	Stock	The company	Companies in the financial statements	Stock	Cash	The company	Companies in the financial statements	The company	
General manager (Taiwan)	Lo, Tsai-Jen																	
General manager (Xiamen)	Chen, Shiu-Hsiung																	
Deputy General Manager	Wu, Hsuan-Miao																	
Deputy General Manager	Lin, Hung-Yu																	
Deputy General Manager	Weng, Ming-Chun																	
Deputy General Manager	Huang, Chung-Jen	30,471		10,417		47,415		1,245	0	1,245	0	1.60%	0	0	0	0	0	0
Deputy General Manager	Peng Wen-Hsing																	
Deputy General Manager	Lee, Chin-Chang																	
Deputy General Manager	Huang, Chieh-Hsiang																	
Deputy General Manager	Hsu, Chih-Ming																	

Deputy General Manager	Lin, Yu-Yu																		
Deputy General Manager	Liao, Cheng-Yao																		
Deputy General Manager	Lee, Hung-Ko																		
Deputy General Manager	Liu, Chao-Sheng																		
Deputy General Manager	Lai, Kuo-Ti																		

Note: Deputy General Manager Wu, Hsuan-Miao retired on June 16, 2017

**Table of Range of Remuneration**

Range of Remuneration	Name of General Manager and Deputy General Manager	
	The company	Companies in the consolidated financial statements
Under NT\$ 2,000,000	-	-
NT\$2,000,000 (inclusive) ~ NT\$5,000,000	Wu, Hsuan-Miao; Lin, Hung-Yu; Weng, Ming-Chun; Huang, Chung-Jen; Hsu, Chih-Ming; Peng Wen-Hsing; Lee Chin-Chang; Huang, Chieh-Hsiang; Lin, Yu-Yu; Liao, Cheng-Yao; Lee, Hung-Ko; Liu, Chao-Sheng ; Lai, Kuo-Ti	Wu, Hsuan-Miao; Lin, Hung-Yu; Weng, Ming-Chun; Huang, Chung-Jen; Hsu, Chih-Ming; Peng Wen-Hsing; Lee Chin-Chang; Huang, Chieh-Hsiang; Lin, Yu-Yu; Liao, Cheng-Yao; Lee, Hung-Ko; Liu, Chao-Sheng; Lai, Kuo-Ti
NT\$5,000,000 (inclusive) ~ NT\$10,000,000	-	-
NT\$10,000,000 (inclusive) ~ NT\$15,000,000	Lo, Tsai-Jen; Chen, Shiu-Hsiung	Lo, Tsai-Jen; Chen, Shiu-Hsiung
NT\$15,000,000 (inclusive) ~ NT\$30,000,000	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000	-	-
NT\$100,000,000 or more	-	-
Total	15	15

\* The remuneration contents disclosed in this table are different from the concept of income specified in the Income Tax Act, thus the purpose of this table is for information disclosure only, rather than taxation.

## (5) Officers Receiving Employee Bonus Distribution

December 31, 2017

Unit: in NT\$1000

Title	Name	Employee Bonus - in Stock	Employee Bonus - in Cash	Total	Total Amount to After-Tax Net Income Ratio (%)
General Manager	Lo, Tsai-Jen	0	2,845	2,845	0.051%
General manager	Chen, Shiu-Hsiung				
Deputy General Manager	Wu, Hsuan-Miao				
Deputy General Manager	Lin, Hung-Yu				
Deputy General Manager	Weng, Ming-Chun				
Deputy General Manager	Huang, Chung-Jen				
Deputy General Manager	Peng, Wen-Hsing				
Deputy General Manager	Lee, Chin-Chang				
Deputy General Manager	Huang Chieh-Hsiang				
Deputy General Manager	Hsu, Chih-Ming				
Deputy General Manager	Lin, Yu-Yu				
Deputy General Manager	Liao, Cheng-Yao				
Deputy General Manager	Lee, Hung-Ko				
Deputy General Manager	Liu, Chao-Sheng				
Deputy General Manager	Lai, Kuo-Ti				
Senior Manager	Lin, Chen-Chieh				
Senior Manager	Wei, Chi-Chiang				
Senior Manager	Ho, Chin-Fang				
Senior Manager	Lin, Chin-Chuan				
Senior Manager	Chang, Chuan-Shun				
Senior Manager	Mao, Yu-Fu				
Senior Manager	Huang, Kuo-Tsai				
Senior Manager	Huang, Yang-Hsun				
Senior Manager	Chen, Ying-Kuang				
Senior Manager	Chang, Ghi-Jung				
Senior Manager	Chang Chin-Lu				
Senior Manager	Liu, Ching-Chung				
Senior Manager	Lo, Chen-Jung				
Senior Manager	Lo, Yung-Li				
Senior Manager	Chen, Shu-Yu				

Senior Manager	Chiang, Kui-Yung				
Senior Manager	Chang, Chin-Ming				
Senior Manager	Hu, Ming-Te				
Chief Financial Officer	Lo, Yung-Li				
Chief Accounting Officer	Chang, Ya-Ching				

Note 1: Deputy General Manager, Wu, Hsuan-Miao retired on June 16, 2017; Chief Accounting Officer, Chang, Ya-Ching came onboard on November 9, 2017.

- (6) Remuneration paid by the Company and by all companies included in the consolidated financial statements to Directors, Supervisors, General Manager and Deputy General Manager in the Most Recent Two Fiscal Years to after-tax net profit ratio; and Remuneration Policy, Standards, Portfolios for The Payment of The Remuneration, and Procedure for Determining Remuneration, and their Connection with Business Performance and Future Risks.

- 1.Total remuneration of directors, supervisors, general managers and deputy general managers of the Company to after-tax net income ratio.

Unit: in NT\$1000; %

Year/Item	Net income	Total remuneration of Directors, Supervisors, General Managers and Deputy General Managers to net profit after tax ratio
2017 the Company	5,541,785	3.62%
2017 consolidated financial statements	5,602,025	3.58%
2016 the Company	13,250,903	3.08%
2016 consolidated financial statements	13,346,481	3.06%

- 2.The policies, standards and portfolios for the payment of remuneration, the procedures for determining remuneration, and their connection with business performance and future risks.

The compensation policy and payment were determined by the Remuneration Committee of the Company in accordance with the market average of each position, and the duties and responsibilities of such position, as well as personal contribution to the Company's operation target. Besides taking overall operating performance of the Company into consideration, personal achievements and contributions made to business operations are also evaluated during the remuneration determination process. The board of directors would then approve the remuneration that is fair and reasonable.

### 3.3 Implementation of Corporate Governance

#### (1) Board of Directors

1. A total of 8 (A) meetings of the board of directors were held in 2017 (as of December 31, 2017). The attendance of directors and supervisors were as follows:

Title	Name (Note 1)	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】 (Note 2)	Remarks
Chairman	Lo, Tsai-Jen	8	0	100%	Re-elected on June 15, 2017
Director	Xie Shun Investment Corporation, represented by Chen, Shiu-Hsiung	4	0	100%	Newly elected on June 15, 2017; required attendance: 4 meetings
Director	Jiu Shun Investment Corporation, represented by Chen, Yun-Hwa	4	0	100%	Newly elected on June 15, 2017; required attendance: 4 meetings
Director	Hong Jing Investment Corporation, represented by Chiu, Li-Ching	4	0	100%	Newly elected on June 15, 2017; required attendance: 4 meetings
Director	Min Xin Investment Corporation, represented by Cheng, Han-Chi	4	0	100%	Newly elected on June 15, 2017; required attendance: 4 meetings
Director	Tseng, Shung-Chu	4	0	100%	Newly elected on June 15, 2017; required attendance: 4 meetings
Director	Horning Yih Investment Corporation, represented by Lee, Chin-Chang	8	0	100%	Re-elected on June 15, 2017
Director	Horning Yih Investment Corporation, represented by Lin, Hung-Yu	8	0	100%	Re-elected on June 15, 2017
Independent director	Hsu, En-De	8	0	100%	Re-elected on June 15, 2017
Independent director	Too, Jui-Rze	8	0	100%	Re-elected on June 15, 2017
Independent director	Chen, Shuei-Jin	4	0	100%	Newly elected on June 15, 2017; required attendance: 4 meetings
Director	Chen, Yun-Hwa	3	1	75%	Tenure ended on June 15, 2017; required attendance: 4 meetings
Director	Chen, Shiu-Hsiung	4	0	100%	Tenure ended on June 15, 2017; required attendance: 4 meetings
Director	Horning Yih Investment Corporation, represented by Wu, Hsuan-Miao	4	0	100%	Tenure ended on June 15, 2017; required attendance: 4 meetings
Supervisor	Tseng, Shung-Chu	4	0	100%	Tenure ended on June 15, 2017; required attendance: 4 meetings

Supervisor	Chiu, Li-Ching	4	0	100%	Tenure ended on June 15, 2017; required attendance: 4 meetings
Supervisor	Cheng, Han-Chi	4	0	100%	Tenure ended on June 15, 2017; required attendance: 4 meetings

Other mentionable items:

1. If any of the following events occurred, the dates of the meetings, sessions, summary of proposals, opinions of all the independent directors and the company's responses should be specified:

(1) Circumstances referred to in Article 14-3 of the Securities and Exchange Act:

Date	Proposal	Independent Director's Opinion	The Company's Response
January 5, 2017	(1) Officers' year-end bonus and profit distribution plans of the Company (2) Proposal of maximum loan balance of the Company (3) Proposal of endorsement and guarantee of obligations provided by the Company	None	N/A
March 20, 2017	(1) 2016 director, supervisor and employee profit sharing plans of the Company (2) Discussion of the Company's 2016 Consolidated Financial Statements and Individual Financial Statements (3) Proposal of the date and location of the 2017 Annual General Meeting as well as the reasons to convene the meeting (4) Proposal of the period and location accepting shareholder proposals and independent director candidate nominations for the 2017 Annual General Meeting (5) Auditor independence evaluation report (6) Approval of the Company's 2016 Internal Control Statement (7) Amendment to the Company's Remuneration Committee Charter (8) Proposal of maximum loan balance of the Company (9) Proposal of endorsement and guarantee of obligations provided by the Company	None	N/A
April 26, 2017	(1) Ratification of the Company's 2016 profit distribution and business report (2) Review of independent director candidates (3) Proposal to re-elect the directors (including independent directors) of the Company (4) Proposal to release the new directors of the Company from non-compete restrictions (5) Ratification of disposal of fixed assets to related parties (6) Amendments to the internal control system manual of the Company (7) Discussion of the proposed amendments to the Company's Articles of	None	N/A

		<p>Incorporation</p> <p>(8) Discussion of the proposed amendments to the Company's Procedures for the Acquisition and Disposal of Assets</p> <p>(9) Discussion of the proposed amendments to the Company's Rules Governing Fund Lending and Endorsement and Guarantee</p> <p>(10) Discussion of the proposed amendments to the Company's Rules for Election of Directors and Supervisors</p> <p>(11) Discussion of the proposed amendments to the Company's Rules and Procedures for Board Meetings</p> <p>(12) Discussion of the proposed amendments to the Company's Corporate Governance Best Practice Principles</p> <p>(13) Discussion of the proposed amendments to the Company's Ethical Corporate Management Best Practice Principles</p> <p>(14) Discussion of the amendments to the Company's Operating Procedures to Suspend and Resume Transactions</p> <p>(15) Discussion of the amendments to the Company's Rules and Procedures for Changes in Professional Judgement Process, Accounting Policies and Estimates</p> <p>(16) Proposal to amend the Company's Audit Committee Charter</p>			
	May 10, 2017	<p>(1) Ratification of the Company's Q1 2017 Consolidated Financial Statements</p> <p>(2) Payment of 2016 director and supervisor remuneration</p> <p>(3) Proposal of the offering of unsecured corporate bonds of 2017</p>	None	N/A	
	June 15, 2017	<p>(1) Appointment of Chairman of the Board</p>	None	N/A	
	July 6, 2017	<p>(1) Proposal of ex-dividend date</p> <p>(2) Ratification of appointment and removal of personnel</p> <p>(3) Proposal to acquire the equities of Maxxis International (Thailand) Co., Ltd. from an individual</p> <p>(4) Proposal to participate in the capital increase of Maxxis Rubber India Private Limited</p> <p>(5) Proposal of endorsement and guarantee of obligations provided by the Company</p> <p>(6) Proposal of maximum loan balance of the Company</p>	None	N/A	
	August 10, 2017	<p>(1) Ratification of the Company's Q2 2017 Consolidated Financial Statements</p> <p>(2) Appointment of members of the Remuneration Committee of the Company</p> <p>(3) Review and discussion of independent director remuneration</p> <p>(4) Amendments to the Company's Rules and Procedures for Board Meetings</p> <p>(5) Amendments to the Audit Committee</p>	None	N/A	

		Charter (6) Proposal of maximum loan balance of the Company (7) Proposal of endorsement and guarantee of obligations provided by the Company		
November 9, 2017		(1) Ratification of the Company's Q3 2017 Consolidated Financial Statements (2) Proposal to adopt the Company's 2018 Audit Plan (3) Amendments to the internal control system manual of the Company (4) Proposal of the pension payment standards for Deputy General Manager, Wu, Hsuan-Miao (5) Appointment of Chief Accounting Officer (6) Proposal of maximum loan balance of the Company (7) Proposal of endorsement and guarantee of obligations provided by the Company	None	N/A

(2) Except as otherwise disclosed above, any other resolutions of the board of directors' meetings objected to or subject to qualified opinion by any of the independent directors and recorded or declared in writing: None.

2. If there were directors who abstained from voting due to conflict of interest, the directors' names, summary of the proposal, and causes of abstention should be specified:

Date	Names of Directors	Proposal	Causes of Abstention	Voting
August 10, 2017	Hsu, En-De Chen, Shuei-Jin	Appointment of members of the Remuneration Committee of the Company	Two independent directors abstained from voting due to conflict of interest.	The directors abstained from voting pursuant to Article 15 of the Company's Rules and Procedures for Board Meetings
August 10, 2017	Hsu, En-De Too, Jui-Rze Chen, Shuei-Jin	Review and discussion of independent director remuneration	Three independent directors abstained from voting due to conflict of interest.	The directors abstained from voting pursuant to Article 15 of the Company's Rules and Procedures for Board Meetings

3. Measures taken to strengthen the functionality of the Board in the current and the latest year (e.g. establishing the Audit Committee, enhancing information transparency), and implementation status:

- (1) The Company has independent directors on the Board and an audit committee in place, and holds Board meetings and Audit Committee meetings on a regular basis. We also invite accountants/auditors to sit in on the Board meetings to help the directors have a better understanding of the global market, industry trend, and financial, accounting and tax regulations, thereby benefiting the management and operations of the Company.
- (2) The Company has amended the Company's Rules for Election of Directors, Rules and Procedures for Board Meetings, and adopted corporate governance rules, which are made available on the corporate website and on the Market Observation Post System (MOPS).
- (3) The Company discloses information in respect of directors' continuing education, Board meeting attendance, and remuneration of directors on MOPS.
- (4) The Company posts important matters resolved by the board of directors, Board attendance, and director profiles (including independent directors) on the corporate website.

Note 1: The names of a corporate shareholder and its representative shall be disclosed if the director or supervisor is a juristic person.

Note 2:

- (1) If a director or supervisor resigns before the end of the accounting year, the resignation date shall be noted in the "Remarks" column. His or her attendance rate (%) will be calculated on the basis of number of board meetings held during his or her tenure and number of such meetings attended.
- (2) If a director or supervisor is re-elected before the end of the accounting year, the names of the current and previous director or supervisor shall be listed and their appointment status and re-election date shall be noted in the "Remarks" column. His or her attendance rate (%) will be calculated on the basis of number of board meetings held during his or her tenure and number of such meetings attended.

## 2. The target of the board of director's functionality

The Company shall diversify Board composition and develop guidelines on diversity based on the operations, nature of business activities and development needs of the Company, including but not limited to the following two aspects:

- Basic qualification and value: gender, age, nationality and culture.
- Professional knowledge and skills: professional backgrounds (such as law, accounting, industry-specific, finance, marketing or technology), professional skills and working experience in the industry.

The directors should generally have the knowledge, skills and self-cultivation required for performing their duties. In order to achieve the ideal targets of corporate governance, the general abilities that the board of directors should be equipped with are stated below:

- Capability to make sound business judgments
- Accounting and financial analysis capabilities
- Capability of operations management (including the management of subsidiaries)
- Crisis management capability
- Industry knowledge
- Global market viewpoint
- Leadership skills
- Capability to make decisions

### (2) Attendance of Supervisors at Board Meetings

A total of 4 (A) meetings of the Board of Directors were held in 2017 (as of December 31, 2017). The attendance of supervisors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】 (Note)	Remarks
Supervisor	Tseng, Shung-Chu	4	0	100%	Tenure ended on June 15, 2017; required attendance: 4 meetings
Supervisor	Chiu, Li-Ching	4	0	100%	Tenure ended on June 15, 2017; required attendance: 4 meetings
Supervisor	Cheng, Han-Chi	4	0	100%	Tenure ended on June 15, 2017; required attendance: 4 meetings

Other mentionable items:

#### 1. Composition and responsibilities of supervisors:

- (1) Communications between supervisors and the Company's employees and shareholders (e.g. communication channels and methods): The supervisors actively attended annual shareholders meetings, and interacted well with the shareholders.
- (2) Communications between supervisors and the Company's chief internal auditor and CPAs (e.g. items, methods and results of the communication in respect of the Company's finance and operations): The supervisors communicated with the Company's chief internal auditor and CPAs in respect of the annual financial report by means of in-person interview, and the communication went well without any objection from either side.

2. If a supervisor expresses an opinion during a meeting of the Board of Directors, the dates of the meetings, sessions, contents of the motions, resolutions of the directors' meetings and the company's response to the supervisor's opinion should be specified: None

Note 1: If a supervisor resigns before the end of the accounting year, the resignation date shall be noted in the "Remarks" column. His or her attendance rate (%) will be calculated based on the number of board meetings attended during his or her tenure.

Note 2: If a supervisor is re-elected before the end of the accounting year, the names of current and previous supervisor shall be listed and their appointment status and re-election date shall be noted in the "Remarks" column. His or her attendance rate (%) will be calculated based on the number of board meetings attended during his or her tenure.

(3) Audit committee

A total of 3 (A) meetings of the Audit Committee were held in 2017 (as of December 31, 2017). The attendance of independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) 【B/A】 (Note)	Remarks
Independent Director	Hsu, En-De	3	0	100%	Newly elected on June 15, 2017
Independent Director	Too, Jui-Rze	3	0	100%	Newly elected on June 15, 2017
Independent Director	Chen, Shuei-Jin	3	0	100%	Newly elected on June 15, 2017

Other mentionable items:

1. If any of the following events occurred, the dates of the meetings, sessions, summary of proposals, opinions of all the independent directors and the company's responses should be specified:

(1) Circumstances referred to in Article 14-5 of the Securities and Exchange Act:

Date	Proposal	Audit Committee Resolution	The Company's Response
July 6, 2017	(1) Report of internal audit findings (2) Proposal to acquire the equities of Maxxis International (Thailand) Co., Ltd. from an individual (3) Proposal to participate in the capital increase of Maxxis Rubber India Private Limited	Approved by the unanimous decision of the Audit Committee members present	Approved by the unanimous decision of the directors present at the Board meeting on July 6, 2017
August 10, 2017	(1) Report of internal audit findings (2) Ratification of the Company's Q2 2017 Consolidated Financial Statements	Approved by the unanimous decision of the Audit Committee members present	Approved by the unanimous decision of the directors present at the Board meeting on August 10, 2017
November 9, 2017	(1) Report on businesses involving financial derivatives as at the end of October 2017 (2) Report of internal audit findings (3) Ratification of the Company's Q3 2017 Consolidated Financial Statements (4) Proposal to adopt the Company's 2018 Audit Plan (5) Amendments to the internal control system manual of the Company (6) Appointment of Chief Accounting Officer (7) Proposal of endorsement and guarantee of obligations provided by the Company	Approved by the unanimous decision of the Audit Committee members present	Approved by the unanimous decision of the directors present at the Board meeting on November 9, 2017

(2) Except as otherwise disclosed above, any other proposals which failed to obtain the approval of the Audit Committee, but were approved by two-thirds of the directors: None.

2. If there were independent directors who abstained from voting due to conflict of interest, the independent directors' names, contents of the proposal, and causes of abstention should be specified: None

3. Communication between independent directors, internal chief audit officer and CPAs (which should include the important matters, methods, and results regarding the Company's finance and operations):

(1) Summary of communication between independent directors and internal Chief Audit Officer in 2017:

Date	Discussion Points	Method	Results
July 6, 2017	Report of internal audit findings	Presentation	Report acknowledged. No further opinions were given.
August 10, 2017	Report of internal audit findings	Presentation	Report acknowledged. No further opinions were given.
November 9, 2017	(1) Report of internal audit	Presentation	Report acknowledged. No

	findings (2) Discussion of the 2018 Audit Plan (3) Discussion of the internal control system manual of the Company		further opinions were given.
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(2) Summary of communication between independent directors and CPAs in 2017:

Date	Discussion Points	Method	Results
March 2, 2017	(1) The roles and responsibilities of chief auditor/governance unit (2) Audit Plan (3) Preliminary view on key audit matters (4) Auditor independence	Presentation	Report acknowledged. No further opinions were given.
March 20, 2017	(1) Material findings during the audit (2) Draft audit report (3) Auditor independence	Presentation	Report acknowledged. No further opinions were given.
August 10, 2017	(1) Material findings during the audit (2) Draft audit report (3) Auditor independence	Presentation	Report acknowledged. No further opinions were given.
November 9, 2017	(1) Material findings during the audit (2) Draft audit report (3) Auditor independence	Presentation	Report acknowledged. No further opinions were given.

Note:

- If an independent director resigns before the end of the accounting year, the resignation date shall be noted in the "Remarks" column. His or her attendance rate (%) will be calculated on the basis of number of Audit Committee meetings held during his or her tenure and number of such meetings attended.
- If any independent director is re-elected before the end of the accounting year, the names of current and previous independent directors shall be listed and their appointment status and re-election date shall be noted in the "Remarks" column. His or her attendance rate (%) will be calculated on the basis of number of Audit Committee meetings held during his or her tenure and number of such meetings attended.

(4) Corporate Governance Implementation Status, Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations

Evaluation Item	Implementation Status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles according to Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies?	V		The Company has established Corporate Governance Best Practice Principles, which is disclosed on the Market Observation Post System and our corporate website, in accordance with Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies.
2. Shareholding structure & shareholders' interests			
(1) Does the company establish an internal operating procedures to handle shareholders' suggestions, inquiries, disputes and litigations and implement observe these procedures?	V		(1) For ensuring shareholder's interests, the Company has appointed dedicated staff to handle the suggestions, inquiries and disputes of shareholders.
(2) Does the company possess the list of its major shareholders as well as the ultimate beneficial owners of those shares?	V		(2) The Company provides a shareholder list via a shareholder service agency, and monitors the declaration system of shareholding changes of insiders.
(3) Does the company establish and execute the risk management and firewall system between affiliated companies?	V		(3) The personnel, assets and financial management responsibilities of the Company and its affiliated companies are clearly separated. In addition to the subsidiary oversight procedures established and adopted by the Company, the internal auditors regularly monitor the implementation of such procedures.
(4) Does the company establish internal rules against insiders trading by using undisclosed information?	V		(4) The Company has established the internal rules, Management Procedures for Preventing Insider Trading, and disclosed the rules on its corporate website.
3. Composition and Responsibilities of the board of directors			
(1) Does the board develop and implement a diversity guideline for the composition of its members?	V		(1) The Corporate Governance Best Practice Principles of the Company requires that Board
			(1) None

Evaluation Item	Implementation Status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
<p>(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?</p> <p>(3) Does the company establish a standard to measure the performance of the board and perform the evaluation annually?</p> <p>(4) Does the company regularly evaluate the independence of CPAs?</p>			
	V		<p>composition should take into consideration gender equality, and the members of the Board shall be equipped with sufficient knowledge, skills and competency to perform their duties. Currently, there are 11 directors serving on the Board, including two female directors. Their areas of expertise include business, finance, and accounting.</p> <p>(2) The Company currently has no other functional committees.</p>
	V		<p>(3) The Company has a sound audit system which is duly implemented. Thus the Company has not established any rules and procedures for evaluating the Board's performance.</p>
	V		<p>(4) The Company submitted the proposal to the Board of Directors on March 20, 2018, and the evaluation of its CPA's independence was approved with the below items:  (a) The CPAs of the Company have not worked in the Company during the two years before providing audit services.  (b) The CPAs of the Company do not hold any shares of the Company.  (c) The CPAs of the Company and the Company have no loan relationship.</p>



Evaluation Item	Implementation Status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons for Deviations
	Yes	No	
		<p>directors may be aware of the proposals. If any of the proposals involve stakeholders that require refusal, a reminder shall be given to such persons prior to the meeting.</p> <p>2. Register the date of the shareholders annually as required by the law, prepare and file meeting notice, handbook and minutes within the prescribed period, and file for change of information when the Articles of Incorporation is amended or after a re-election of directors and supervisors.</p> <p>3. Promote the quality of corporate governance practices for the sustainable development of the Company by formulating guidelines based on the indicators provided by the corporate governance evaluation system, thereby building a culture of corporate governance.</p>	
<p>5. Has the Company established communication channels for its stakeholders (including but not limited to shareholders, employees, customers and suppliers) or created a stakeholders section on its corporate website? Does the Company promptly respond to the concerns of stakeholders regarding important corporate social responsibility issues?</p>	V	<p>The Company has a “Corporate Social Responsibility” section and a “Stakeholders” section on our corporate website, and has been publishing and filing the corporate social responsibility report every year. In addition, we also post the corporate social responsibility activities on our Facebook page (<a href="https://www.facebook.com/MaxxisTaiwan/">https://www.facebook.com/MaxxisTaiwan/</a>) and YouTube channel (<a href="https://www.youtube.com/channel/UCp4E54RFmqpXH0EdCcipNvQ">https://www.youtube.com/channel/UCp4E54RFmqpXH0EdCcipNvQ</a>) in order to increase communications and interactions with stakeholders. Moreover, e-mail accounts have been created on the website for banks that we have regular transactions with, as well as other creditors, employees, customers and suppliers; we maintain open communication channels and respect their lawful rights.</p>	None

Evaluation Item	Implementation Status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons for Deviations
	Yes	No	
6. Does the company appoint a professional shareholder service agency to handle shareholder affairs?	V	The Company designates Yuanta Securities Co., Ltd. to handle shareholder affairs.	None
7. Information Disclosure (1) Does the company have a corporate website to disclose information of financial standing, business and the status of corporate governance?	V	(1) The Company has set up a corporate website, which is maintained and updated by dedicated staff, and discloses information regarding the Company's financials and business for public and shareholders' reference.	
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, and making the process of investor conferences available on the corporate website)?	V	(2) The Company has established a spokesperson system to ensure information that likely affects shareholders and stakeholders' decisions are properly disclosed in a timely and proper manner. We have also assigned dedicated personnel to maintain our corporate website in order to provide up-to-date investor information, such as audio and video files of the investor conferences and English versions of the financial statements and annual reports.	None
8. Is there any other important information which facilitates a better understanding of the company's corporate governance practices (e.g. including but not limited to employee rights, employee wellbeing, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation standards, the implementation of customer policies, and purchasing of insurance for directors and supervisors)?	V	(1) Employee benefits and welfare (a) The Employee Welfare Committee meets regularly and adopts and implements benefits and allowance programs. It is our commitment to look after the welfare of our employees. We also partner with various stores near our offices to provide special offers or employee discounts. (b) We also offer a variety of welfare programs to our employees, including: <ul style="list-style-type: none"> <li>• Mandatory insurance coverage</li> <li>• Regular physical examinations, health education and tips, and consolation payment to hospitalized employees</li> <li>• Recreation and fitness facilities and sports</li> </ul>	None

Evaluation Item	Implementation Status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons for Deviations
	Yes	No	
		<p>Summary</p> <p>events</p> <ul style="list-style-type: none"> <li>• Convenience stores in the factories, company uniforms, free parking, and employee housing</li> <li>• Our overseas offices also offer free meals, pre-paid round trip plane tickets to Taiwan and rides to and from the airport.</li> </ul> <p>(c) Onsite medical consultation: we have doctors and nurses onsite to provide employees health and medical services.</p> <p>(2) Status of directors' training records: Please refer to page 64-65 of this annual report.</p> <p>(3) Status of directors' attendance in the Board meetings: the Company complies with the relevant regulations and achieves the quorum required by the law. Please refer to pages 34-35 of this annual report.</p> <p>(4) The implementation status of risk management policy and risk evaluation standards: For the operational risks the Company may face, we implement thoroughly at the system level, and design emergency response mechanisms for specific situations.</p> <p>(5) The implementation status of consumer protection or client policy: the Company has an after-sales service department, and dedicated customer service area (website: <a href="http://www.cst.com.tw">http://www.cst.com.tw</a>); nationwide distributor network to provide consumer related consultation and appeal channels.</p> <p>(6) The implementation status of directors' abstention in proposals involving a conflict of interest: the directors of the Company uphold the</p>	

Evaluation Item	Implementation Status		Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and Reasons for Deviations
	Yes	No	
		<p>principle of high self-discipline; if the directors have a conflict of interest in the proposals listed by the board of directors which would result in damages to the Company, such directors shall abstain from voting on the proposal. Please refer to pages 37 of this annual report.</p> <p>(7) The status of the Company buying liability insurance for the directors, social responsibilities and other matters: the Company has complied with Articles 39 and 50 of Corporate Governance Practice Principles to add to the Articles of Corporation that the Company shall buy liability insurance to cover the liabilities incurred by the directors under the law while carrying out the duties during their tenures. The above matter has been reported to the Board of Directors on March 20, 2018.</p> <p>(8) Corporate Social Responsibilities: in addition to focusing on the business development, the Company has also made long-term investment in corporate social responsibilities such as consumer rights and public interest, and give back to the society as it sees fit.</p>	
			<p>9. Based on the most recent Corporate Governance Evaluation Results released by the Taiwan Stock Exchange Corporate Governance Center, please provide a description of the areas improved, and priorities and measures to be taken on areas identified for improvement: (Not applicable to the companies not on the to-be-evaluated list)</p> <p>The score the Company received in the 1<sup>st</sup> Annual Corporate Governance Evaluation was 73.29 (released in May 2015), and 74.3 in the 2<sup>nd</sup> Annual Corporate Governance Evaluation (released in April 2016), which was in the first 36-50 percentile. As a result, we have been working towards strengthening the following two areas: "Putting Corporate Social Responsibility into Practice" and "Enhancing Board Composition and Operation". In the 3<sup>rd</sup> Annual Corporate Governance Evaluation, the score the Company received was 78.14 (released in April 2017), which was in the first 21-35 percentile. In the 4<sup>th</sup> Annual Corporate Governance Evaluation, the score the Company received was 81.42 (released in April 2018), which indicates a significant improvement in our corporate governance practices. Going forward, the Company will continue to improve these two performance indicators to enhance and strengthen the level of its corporate governance.</p>

(5) **Composition, Responsibilities and Operations of the Remuneration Committee**

1.The responsibilities of the remuneration committee of the Company: review directors and managers’ annual and long-term performance targets and the policies, systems, standards and compositions of salary and bonus on a regular basis; regularly evaluate the implementation status regarding directors and managers’ performance targets, and determine individual contents and amount of salary and bonus.

2.The composition of the remuneration committee of the Company:

the remuneration committee of the Company was established on July 19, 2011; as of March 31, 2018, information of the remuneration committee members are as follows:

Title (Note 1)	Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years’ Working Experience			Independence Criteria (Note 2)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remarks (Note 3)
		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, prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has working experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Hsu, En-De	V	V	V	V	V	V	V	V	V	V	V	3	Not applicable
Independent Director	Chen, Shuei-Jin	V	V	V	V	V	V	V	V	V	V	V	3	Nor applicable
Other	Lin, Chieh-Chung	X	V	X	V	V	V	V	V	V	V	V	0	Not applicable

Note 1 : Please respectively specify whether the title is Director, Independent Director or Other.

Note 2 : If a member meets any of the following conditions during the two years prior to being elected or during the term(s) of office, please tick the corresponding boxes that apply.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or any of its affiliated companies. Not applicable in cases where the person is an independent director of the Company, its parent company or subsidiary appointed according to the Regulations Governing the Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person’s spouse, children (minors), or held by the person under others’ names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in

holdings.

- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
  - (5) Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
  - (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
  - (7) Not a professional individual nor an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
  - (8) Not a person of any conditions defined in Article 30 of the Company Act.
- Note3 : If the member's title is a director, please explain if Article 6, Paragraph 5 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" is complied with.

### 3.Operation Status of the Remuneration Committee

The tenure of the current remuneration committee members is from August 10, 2017 to June 14, 2020. A total of 3 (A) Remuneration Committee meetings were held in 2017. The titles and attendance record of the Remuneration Committee members were as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance Rate (%) 【B/A】 (Note)	Remarks
Convener	Hsu, En-De	3	0	100%	Re-elected on August 10, 2017
Committee Member	Chen, Shuei-Jin	1	0	100%	Elected on August 10, 2017; required attendance: 1 meeting
Committee Member	Lin, Chieh-Chung	1	0	100%	Elected on August 10, 2017; required attendance: 1 meeting
Committee Member	Tu, Chun-Yung	2	0	100%	Tenure ended on June 16, 2017; required attendance: 2 meetings
Committee Member	Lin, Ching-Tung	2	0	100%	Tenure ended on June 16, 2017; required attendance: 2 meetings
<p>Other mentionable items:</p> <p>1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, the date of the meeting, session, summary of the proposal, resolution by the board of directors, and the Company's response to the remuneration committee's opinion shall be specified: None.</p> <p>2. Resolutions of the remuneration committee objected to or subject to a qualified opinion by the members and recorded or declared in writing, the date of the meeting, session, content of the proposal, the opinion of all members of the remuneration committee and the Company's response to the members' opinion shall be specified: None.</p>					

Note1:If a member of Remuneration Committee resigns before the end of the accounting year, the resignation date shall be noted in the "Remarks" column. His or her attendance rate (%) will be calculated on the basis of number of Remuneration Committee meetings held during his or her tenure and number of such meetings attended.

Note2:If a Remuneration Committee member is re-elected before the end of the accounting year, the names of current and previous members shall be listed and their appointment status and re-election date shall be noted in the "Remarks" column. His or her attendance rate (%) will be calculated on the basis of number of Remuneration Committee meetings held during his or her tenure and number of such meetings attended.

(6) Corporate Social Responsibility

Evaluation Item	Implementation Status		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
1. Corporate Governance Implementation (1) Does the company declare its corporate social responsibility policy or system and examine the results of its implementation?	V	(1) The Company established a "Corporate Social Responsibilities Dedicated Department" in 2015, assigning the Planning Department as the dedicated department, and adopted the Corporate Social Responsibility Best Practice Principles. The Planning Department is responsible for the planning of corporate social responsibility strategies and system, and review of the implementation results regarding the above strategies and system based on the Best Practice Principles in order to promote duly implementation.	None
(2) Does the company provide educational training on corporate social responsibility on a regular basis?	V	(2) The Company regularly offers educational trainings on corporate social responsibility to advocate the policies and systems related to social responsibility and the implementation results of environmental education.	None
(3) Does the company establish exclusively (or concurrently) a dedicated department and does the board authorize any senior management member to take charge of proposing and implementing the corporate social responsibility policies and report the implementation results to the board?	V	(3) The Company has established and promoted a dedicated department for corporate social responsibility, and has been publishing CSR Reports every year. A report on the content and plans of the 2016 CSR Report, as well as CSR activities planning for 2017 were submitted at the meeting of the board of directors on May 10, 2017.	None
(4) Does the company establish a reasonable salary remuneration policy and integrate the employee	V	(4) The Company has established a reasonable salary remuneration policy and has regularly held educational training programs for the employees to enhance their understanding of corporate morals. The Company has also	None

Evaluation Item	Implementation Status		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
performance evaluation system with its corporate social responsibility policy, as well as establish an effective rewards and disciplinary policy?		made rewards and disciplinary recommendations based on the employees' evaluation results in order to inspire employees to grow along with the Company.	
2. Sustainable Environment Development (1) Does the company endeavor to raise the efficiency of using all resources and use renewable materials which have low impact on the environment?	V	(1) With the growing awareness of global environmental protection in countries around the world, there have been standards imposed on the fuel efficiency of tires each year, which results in laws and regulations being adopted to govern fuel efficiency in the world, such as EU tire labeling and the classification of tire rolling resistance in Japan to regulate fuel efficiency of tires. In light of these regulations, the Company is committed to promoting low rolling resistance tires in its new product development and increasing production efficiency to minimize environmental impact.	None
(2) Does the company establish proper environmental management systems based on the characteristics of its industry?	V	(2) The Company received ISO-14001: 2015 Environmental Management System Conversion Certification at the end of 2017. Through actions, we meet the expectation and demands of our stakeholders. Energy saving, recycling, operating safety and pollution prevention are the Company's core principles. The Company also promotes the 5S management activities comprehensively and regularly examine all departments. The Health and Safety Department is responsible for the implementation of environmental management policy.	None
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish and implement company strategies for energy conservation and carbon	V	(3)1. The Company's main plant and Dou Liu plant have each received the Energy Efficiency and Carbon Reduction Marks from the Environmental Protection Administration. In March 2017, Dou Liu 2 <sup>nd</sup> plant also became the 78 <sup>th</sup> factory (and the first in the rubber product manufacturing industry) in Taiwan to have received the Clean Production Evaluation System Certification from the Industrial	None

Evaluation Item	Implementation Status		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
reduction and greenhouse gas reduction?		<p>Development Bureau.</p> <p>2. Under the Greenhouse Gas Reduction and Management Act, the Company's main plant is the only manufacturing facility that is required to conduct greenhouse gas emission inspection and registration (with an annual fossil fuel emission of more than 25,000 t-CO<sub>2</sub>e). In 2017, the Company voluntarily signed up for the greenhouse gas emission reduction initiative hosted by the Industrial Development Bureau. The total amount of greenhouse gas emission by the main plant in the last three years was as follows: 84,343,194 t-CO<sub>2</sub>e in 2016, which was 5.7% lower than in 2015; 89,484,065 t-CO<sub>2</sub>e in 2015, which was 5.9% less than in 2014; 95,145,023 t-CO<sub>2</sub>e in 2014. We have been consistently reducing our greenhouse gas emission and will continue our efforts going forward.</p> <p>3. Energy conservation: The Company has established an energy management organization to annually set up energy conservation goals and action plans. The Company currently follows the energy-efficient settings promoted by the Ministry of Economic Affairs, which is aimed to reduce water use by 20% per ton of tire and energy use by 1% from a year before. The energy conservation measures taken by the Company include replacing old models of motors with energy-efficient motors, adopting for energy-efficient light fixtures, recovering waste heat from the water heating system, and replacing the AC system, and the reduction of exhaust gas, waste water, noise, and waste generated and energy saving during the manufacture process, and proper recycling of resources, etc.</p>	
3. Maintaining Public Welfare (1) Does the company establish appropriate management policies	V	(1) The Company has established a labor union in accordance with the Labor Standards Act and relevant labor regulations to manage and ensure	None

Evaluation Item	Implementation Status		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
and procedures according to relevant regulations and the International Bill of Human Rights?			
(2) Does the company set up an employee complaint mechanism or communication channel and handle the complaints appropriately?	V		(2) The Company has offered an employee complaint system and mechanism on the internal website as a channel for employees to file complaints, which is strictly handled by the Human Resources Department to efficiently make improvements and resolve problems.
(3) Does the company provide its employees with a safe and healthy working environment and organize educational training programs on the issues of safety and health for its employees on a regular basis?	V		(3)1. The safety devices of the machinery and equipment are inspected by the operators daily before operation. Dangerous machinery and equipment are routinely inspected each year. The health and safety officers daily perform onsite inspection and conduct auditing from time to time, and write up a checklist of safety improvements in the case of any violations. Every half year, the Company conducts an assessment on the operating environment. 2. Each new employee is required to participate in a general health and safety educational training; an advanced training is also provided based on the type of machinery and equipment he/she will be operating once he/she arrives at the operating site. The Learning and Development Division under the HR Department have trainings and seminars regarding health and safety from time to time for employees to participate in. Regulations related to health and safety, environmental protection, training information, and SDS downloads are also made available by the Safety & Health Department on the Company's intranet. 3. Each year, the Company offers general and specialized health checkups to its employees. The Company also has doctors on-site at the factories weekly to provide services, and an infirmary and medical staff specialized in labor health service to provide consultation and first aid.

Evaluation Item	Implementation Status		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
(4) Does the company set up a regular communication channel with employees and inform employees, in a reasonable manner, of any significant operational changes which may have an impact on them?	V		(4) The Company has internal web pages and individual emails for employees which provide them with information from every department, announcements and communication platforms among employees. We have also established a communication mechanism between employees and the Company through the coordination from within and across different departments, management meetings and a complaint system.
(5) Does the company provide its employees with effective career development training programs?	V		(5) The Company is dedicated to creating a continuous and abundant learning environment. Each year, its employees participate in educational training regarding vocational development for enhancing their capabilities in respect of career development. Please refer to the relevant items of educational training and required hours on page 113 of the annual report.
(6) Does the company establish any consumer protection policies and complaint procedures regarding research and development, purchase, production, operation and service processes?	V		(6) The Company has a "Stakeholders" section, as well as a post-sale service department and a customer service web page (website: <a href="http://www.cst.com.tw">http://www.cst.com.tw</a> ). The Company's distributors nationwide also provide consumers with consultation and complaint channels.
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	V		(7) The Company has disclosed its advertisement and labelling information of the products and services on the corporate website. The Company has also disclosed all verifications and awards obtained due to the Company's compliance with regulations on the introduction page (website: <a href="http://www.cst.com.tw">http://www.cst.com.tw</a> ).
(8) Does the company evaluate the records of suppliers' impact on the environment and society before	V		(8) The Company has a rigorous review process for suppliers. The processes are product verification, qualification review and on-site visits. The supplier evaluation results are divided into A, B+, B, and C total of 4

Evaluation Item	Implementation Status		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
building business relationships with them?		different evaluation results. In the aspect of environmental aspect, the Company places particular emphasis on compliance with EU chemical safety and material composition. In the face of labor and human rights, the Company places emphasis on suppliers not to recruit child laborers and to hold training about labor safety, health and environment. In addition to this review process, raw material suppliers are required to provide quality laboratories or third-party inspection reports for each batch of goods. After entering the factory, the Company will conduct batch inspections or random inspections to ensure the quality of raw materials.	
(9) 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 material impact on the environment and society?	V	(9) The Company specifies damages and termination clauses in contracts with the suppliers regarding the suppliers' breach of their social responsibilities and ethical operations. If a breach occurs by any of the suppliers, the Company will no longer do business with the supplier.	None
4. Enhancing Information Disclosure (1) Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V	The Company has disclosed its CSR reports on the corporate website and made reporting on MOPS regarding the Company's implementation of social responsibilities.	None
5. If the Company has established the corporate social responsibility best practice principles according to the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies (the "Principles"), please describe any discrepancy between the Principles and their implementation: The Company has adopted and implemented the Corporate Social Responsibility Best Practice Principles. There is no discrepancy between our corporate social			

Evaluation Item	Implementation Status		Deviations from Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
responsibility practices and the Principles.			
6. Other important information which facilitates a better understanding of the company's corporate social responsibility implementation :			
Since the incorporation of the Company, not only do we focus on developing our core business, we also actively participate in charity events to make social contribution. The Company's involvement in social contribution include delivering meals to seniors living alone, donating luggage carts to the airports in several cities, including Taipei, Taichung and Kaohsiung, and to the Kinmen and Matsu ports, offering scholarships to low-income students, maintaining community park benches, sponsoring blood drives. The Company has also continued to sponsor sports events in Taiwan, such as co-hosting the National Table Tennis Tournament with Taiwan Cooperative Financial Holding Co., Ltd., co-sponsoring the National Team Tennis Tournament with First Financial Holding Co., promoting cycling events, including organizing bicycle carnivals, sponsoring the Changhua Classic 100K, and Climbing Taiwan cycling event.			
7. A clear statement shall be made if the corporate social responsibility reports were verified by external certification institutions: None.			

(7) Ethical Corporate Management and Measures

Evaluation Item	Implementation Status		Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
<p>1. Establishment of Ethical Corporate Management Policies and Programs</p> <p>(1) Has the company stipulated its ethical corporate management policies and procedures in its guidelines and public documents, as well as the commitment from its board to implement the policies?</p> <p>(2) Has the company established policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, disciplinary measures for violation, rules of appeals, and commitment to implement the policies?</p> <p>(3) Has the company adopted appropriate precautions against the activities listed in Article 7, Paragraph 2 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies or other activities with high risk of unethical conducts?</p>	V	No	None
	V		
	V		

Evaluation Item	Implementation Status		Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
			the Company, which is aimed to urge personnel of the Company to act with the highest integrity and ethical standards when they perform their duties.
2. Implementation of ethical corporate management (1) Does the company evaluate the ethical records of business counterparties and include clauses stipulating ethical conduct in business contracts?	V		(1) The Company has included clauses related to ethical conducts in the contractual agreements with its business counterparties, which allow the Company to terminate agreements and claim for damages or terminate partnerships due to the counterparties' violations of the clauses.
(2) Has the company established a business unit, which is supervised by the Board and is exclusively or concurrently dedicated to business ethics and integrity, to report to the Board on implementation status?		V	(2) The Company has not yet established any business unit dedicated to business ethics and integrity.
(3) Has the company established policies to prevent conflicts of interest, provided appropriate communication channels and implemented the policies?	V		(3) The Company has a "Stakeholders" section on the corporate website providing a platform for its stakeholders to express their opinions and complaints.
(4) Has the company established an effective accounting system and internal control system to facilitate ethical corporate management, which are audited by either internal auditors or certified public accountants on a regular basis?	V		(4) The internal auditors are appointed and authorized under the rules of the Company and revise the internal control system from time to time in accordance with applicable laws and regulations, implement the system under the law and regulations and routinely submit audit reports to the Board for review.
(5) Does the company regularly hold internal and external trainings on business ethics?	V		(5) The Company has provided 2,152 hours of business ethics training to the employees in 2017.

Evaluation Item	Implementation Status			Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	Summary	
			including campaigns and paper tests. The employees performances are taken into account during the annual evaluation.	
3. Grievance System (1) Has the company established a grievance and rewards system and a reporting hotline? Can the employees with alleged violations be reached by an appropriate contact person for follow-up?	V		(1) The Company has established a grievance system and whistleblowing procedures both on its intranet and on its website providing a channel for its employees and relevant personnel to report unethical business behaviors or improper conduct. The investigation of reported or suspected violations will be undertaken by a responsible unit assigned by the Company.	None
(2) Has the company established standard operating procedures and confidentiality measures for the investigation of reported incidents?	V		(2) The Company's Workplace Rules stipulate the whistleblowing procedures and confidentiality measures, which enhance its code of conduct and ethics.	
(3) Does the company have proper measures in place to protect whistleblowers from reprisals?	V		(3) The Company takes protective measures and maintains the anonymity of whistleblowers to prevent reprisals. Any employee in violation of the Company's ethical standards will be subject to disciplinary actions according to the Company's rewards and disciplinary system.	
4. Enhancing Information Disclosure (1) Has the company disclosed its ethical corporate management policies and results of implementation on the company's website and the Market Observation Post System?	V		(1) The Company has made available its Ethical Corporate Management Best Practice Principles, corporate culture, missions and value and other information on its website and the Market	None

Evaluation Item	Implementation Status		Deviations from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and Reasons for Deviations
	Yes	No	
			Summary  Observation Post System.
5. If the company has established ethical corporate management policies in accordance with the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies (“Best Practice Principles”), please describe any discrepancy between the policies and its practices: The Company has adopted the Ethical Corporate Management Best Practice Principles and implement its ethical corporate management accordingly. There is no discrepancy between our practices and the Best Practice Principles.			
6. Other important information which facilitates a better understanding of the Company’s ethical corporate management practices: The Company has made available on its website the Ethical Corporate Management Best Practice Principles, Rules and Procedures for Board Meetings, Management Procedures for Preventing Insider Trading and a Stakeholders Section. With a vision for sustainable business, we seek to implement ethical corporate management and comply with applicable laws and regulations as the fundamental principles of our business.			

- (8) If the Company established the Corporate Governance Guidelines and Rules, it should disclose the way of inquiry:

1.The Company’s Handbook for the Annual General Meeting of Shareholders each year includes the Company’s Articles of Incorporation, Ethical Corporate Management Best Practice Principles, Corporate Governance Best Practice Principles, Corporate Social Responsibility Best Practice Principles, Rules and Procedures of the Shareholders’ Meeting, Rules for Election of Directors, Procedures for Acquisition and Disposal of Assets and Rules Governing Fund Lending and Endorsement and Guarantee. The Handbook is available on the Market Observation Post System. **【 Please access through the following steps: Company Profile → Electronic Book → Annual Report and Other Information of the Shareholders’ Meeting 】**

2.Other corporate governance guidelines and rules are also available on the Company’s website, <http://www.cst.com.tw>.

- (9) Other Important Information Regarding Corporate Governance: None.

(10) Director Training Records

Title	Name	Dates		Organizer	Course Title/Subject	Hours
		From	To			
Director	Lo, Tsai-Jen	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Director Representative of Corporate Shareholder	Chen, Yun-Hwa	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Director Representative of Corporate Shareholder	Chen, Shiu-Hsiung	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Director Representative of Corporate Shareholder	Chiu, Li-Ching	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Director Representative of Corporate Shareholder	Chiu, Li-Ching	November 10, 2017	November 10, 2017	Taiwan Corporate Governance Association	Board Oversight of Ongoing Company Operations and Crisis Management	3
Director Representative of Corporate Shareholder	Chiu, Li-Ching	November 10, 2017	November 10, 2017	Taiwan Corporate Governance Association	The Roles of the Board in Implementing Corporate Social Responsibility and Enhancing Corporate Governance Practices	3
Director Representative of Corporate Shareholder	Cheng, Han-Chi	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Director Representative of Corporate Shareholder	Lee, Chin-Chang	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Director	Lin,	November 9,	November 9,	Taiwan	Tax Administration	3

Representative of Corporate Shareholder	Hung-Yu	2017	2017	Corporate Governance Association	Challenges Arising From Global Tax Evasion	
Director	Tseng, Shung-Chu	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Director	Tseng, Shung-Chu	November 10, 2017	November 10, 2017	Taiwan Corporate Governance Association	Board Oversight of Ongoing Company Operations and Crisis Management	3
Director	Tseng, Shung-Chu	November 10, 2017	November 10, 2017	Taiwan Corporate Governance Association	The Roles of the Board in Implementing Corporate Social Responsibility and Enhancing Corporate Governance Practices	3
Independent Director	Hsu, En-De	September 15, 2017	September 15, 2017	Taiwan Academy of Banking and Finance	Corporate Governance Forum: Corporate Sustainability	3
Independent Director	Hsu, En-De	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Independent Director	Too, Jui-Rze	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Independent Director	Chen, Shuei-Jin	July 28, 2017	July 28, 2017	Securities & Futures Institute	Legal Compliance of Equity Transfer by Insiders of Listed and Public Non-listed Companies	3
Independent Director	Chen, Shuei-Jin	November 9, 2017	November 9, 2017	Taiwan Corporate Governance Association	Tax Administration Challenges Arising From Global Tax Evasion	3
Independent Director	Chen, Shuei-Jin	November 10, 2017	November 10, 2017	Taiwan Corporate Governance Association	Board Oversight of Ongoing Company Operations and Crisis Management	3
Independent Director	Chen, Shuei-Jin	November 10, 2017	November 10, 2017	Taiwan Corporate Governance Association	The Roles of the Board in Implementing Corporate Social Responsibility and Enhancing Corporate Governance Practices	3

(11) Manager Training Records

Title	Name	Dates		Organizer	Course Title/Subject	Hours
		From	To			
Senior Manager and Head of Finance	Lo, Yung-Li	November 20, 2017	November 21, 2017	Taiwan Accounting Research and Development Foundation	Continuing Education Training for Accounting Officers of Issuers, Securities Firms and the Securities Exchange	12
Head of Accounting	Chang, Ya-Ching	November 20, 2017	November 21, 2017	Taiwan Accounting Research and Development Foundation	Continuing Education Training for Chief Accounting Officers of Issuers, Securities Firms and the Securities Exchange	12

(12) Disclosure matters of the status of Internal Control

1. Internal Control Statement

Cheng Shin Rubber Ind. Co., Ltd.

Statement of Internal Control

March 20, 2018

Based on the self-evaluation of Cheng Shin Rubber Ind. Co., Ltd. (the “Company”)’s internal control system as of December 31, 2017, we hereby state that:

1. The Company understands that the Board and management of the Company are responsible for establishing, implementing and maintaining adequate internal control. The Company has established an effective internal control system which aims to reasonably assure the operational results and effectiveness (including profitability, performance and assets security, etc.), the reliability, timeliness and transparency of its report and the compliance with applicable laws and regulations.
2. Due to its inherent limitations, an effective internal control system can only reasonably ensure the achievement of the three objectives above, no matter how complete and perfect the design of the system is. Besides, the effectiveness of the internal control system may vary due to changes in the environment or conditions. However, the Company has set up a self-monitoring mechanism on the internal control system, which allows the Company to take corrective actions as soon as any error or inadequacy is identified.
3. The Company has assessed the design and operating effectiveness of the internal control system in accordance with the criteria effectiveness assessment of internal control system, listed in the Framework for the Establishment of Internal Control System by Public Companies (the “Framework”). The criteria listed in the Framework divides the internal control system into five components based on management control process. The five components are i) Control environment, ii) Risk assessment, iii) Control activities, iv) Information and communication, and v) Monitoring. Each component comprises of several elements. For more information, please refer to the Framework.
4. We have assessed the design and operating effectiveness of the Company’s internal control system based on the criteria listed in the Framework.
5. Based on the assessment mentioned above, we conclude that the Company maintains an effective design and operation of its internal control system (including supervisory and management of subsidiaries) as of December 31, 2017, which provides reasonable assurance regarding the achievement of the following objectives: understanding the effectiveness and efficiency of operations and the status of goal achievement, reliability, timeliness and transparency of reporting, and compliance with applicable laws and regulations.
6. This statement will be included as an integral part of the Annual Report and the prospectus of the Company and be disclosed to the public. Any false or fraudulent representations and concealment of information in this statement shall be subject to the legal liabilities prescribed by Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. This statement has been unanimously approved by the Board of Directors on March 20, 2018, with 11 directors present at the meeting.

Cheng Shin Rubber Ind. Co., Ltd.

Lo, Tsai-Jen  
Chairman



Lo, Tsai-Jen  
General Manager



2.A separate audit report shall be disclosed where an independent registered public accounting firm has reviewed the Company's internal control system: N/A

- (13) Sanctions imposed on the Company or its personnel in accordance with the laws, or disciplinary actions taken by the Company against its personnel for any violation of internal control rules within the current fiscal year and as at the date of the Annual Report, as well as details of the sanctions, major deficiencies and subsequent improvements: None.

(14) Major Resolutions of Shareholders' Meeting and Board Meetings within the current fiscal year and as at the date of the Annual Report

1.Shareholder Resolutions and Implementation Status

Item	Date	Proposal	Resolution	Implementation Status
2017 Annual General Meeting	June 15, 2017	Approval of 2016 Business Report and Financial Statements	<p>The proposal was approved by votes of the shareholders.</p> <ul style="list-style-type: none"> <li>Number of votes cast for the proposal: 2,457,236,162 votes (635,068,583 of which were cast electronically), accounted for 94.05% of the total voting shares present in person or by proxy</li> <li>Number of votes cast against the proposal: 100,307 votes (all of which were cast electronically)</li> <li>Abstentions via the electronic voting system: 149,229,163</li> <li>Spoilt votes: 0</li> </ul>	The 2016 Business Report and Financial Statements have been announced as approved by the shareholders' meeting.
		Approval of 2016 Profit Distribution Plan	<p>The proposal was approved by votes of the shareholders.</p> <ul style="list-style-type: none"> <li>Number of votes cast for the proposal: 2,456,275,960 votes (639,136,087 of which were cast electronically), accounted for 94.02% of the total voting shares present in person or by proxy</li> <li>Number of votes cast against the proposal: 146,783 votes (all of which were cast electronically)</li> <li>Abstentions via the electronic voting system: 145,115,183</li> <li>Spoilt votes: 0</li> </ul>	The cash dividends were paid to the shareholders at NT\$3 per share on August 25, 2017.
		Amendments to the Company's Articles of Incorporation	<p>The proposal was approved by votes of the shareholders.</p> <ul style="list-style-type: none"> <li>Number of votes cast for the proposal: 2,461,312,238 votes (639,144,659 of which were cast electronically), accounted for 94.21% of the total voting shares present in person or by proxy</li> <li>Number of votes cast against the proposal: 124,501 votes (all of which were cast electronically)</li> <li>Abstentions via the electronic voting system: 145,128,893</li> <li>Spoilt votes: 0</li> </ul>	The Articles of Incorporation has been amended according to the resolution of the shareholders' meeting and filed with the Ministry of Economic Affairs on June 30, 2017.
		Discussion of the proposed amendments to the Company's Procedures for the Acquisition and Disposal of Assets	<p>The proposal was approved by votes of the shareholders.</p> <ul style="list-style-type: none"> <li>Number of votes cast for the proposal: 2,461,315,234 votes (639,147,655 of which were cast electronically), accounted for 94.21% of the total voting shares present in person or by proxy</li> <li>Number of votes cast against the proposal: 133,592 votes (all of which were cast electronically)</li> <li>Abstentions via the electronic voting system: 145,126,806</li> <li>Spoilt votes: 0</li> </ul>	The amended Procedures for the Acquisition and Disposal of Assets have been announced as approved by the shareholders' meeting.

	Discussion of the proposed amendments to the Company's Rules Governing Fund Lending and Endorsement and Guarantee	<p>The proposal was approved by votes of the shareholders.</p> <ul style="list-style-type: none"> <li>Number of votes cast for the proposal: 2,461,303,221 votes (639,135,642 of which were cast electronically), accounted for 94.21% of the total voting shares present in person or by proxy</li> <li>Number of votes cast against the proposal: 137,495 votes (all of which were cast electronically)</li> <li>Abstentions via the electronic voting system: 145,124,916</li> </ul> <p>Spoilt votes: 0</p>	The amended Rules Governing Fund Lending and Endorsement and Guarantee have been announced as approved by the shareholders' meeting.
	Discussion of the proposed amendments to the Company's Rules for Election of Directors and Supervisors	<p>The proposal was approved by votes of the shareholders.</p> <ul style="list-style-type: none"> <li>Number of votes cast for the proposal: 2,437,235,215 votes (615,067,636 of which were cast electronically), accounted for 93.29% of the total voting shares present in person or by proxy</li> <li>Number of votes cast against the proposal: 150,588 votes (all of which were cast electronically)</li> <li>Abstentions via the electronic voting system: 169,179,829</li> </ul> <p>Spoilt votes: 0</p>	The amended Company's Rules for Election of Directors and Supervisors have been announced as approved by the shareholders' meeting.
	Proposal	Results of Election (Excerpt)	Implementation Status
	Re-election of the Directors (including independent directors) of the Company	<p>Directors elected: Lo, Tsai-Jen; Xie Shun Investment Corporation, represented by Chen, Shiu-Hsiung; Jiu Shun Investment Corporation, represented by Chen, Yun-Hwa; Hong Jing Investment Corporation, represented by Chiu, Li-Ching; Min Xin Investment Corporation, represented by Cheng, Han-Chi; Tseng, Shung-Chu; Horning Yih Investment Corporation, represented by Lee, Chin-Chang; Horning Yih Investment Corporation, represented by Lin, Hung-Yu</p> <p>Independent directors elected: Hsu, En-De; Too, Jui-Rze; Chen, Shuei-Jin</p>	<p>The term of the current Board of Directors began on June 15, 2017. An extraordinary Board meeting was called on the same day to appoint the Chairman of the Board.</p> <p>The Directors appointed Lo, Tsai-Jen as the Chairman of the Board.</p>
	Proposal	Resolution	Implementation Status
	Proposal to release the new directors of the Company from non-compete restrictions	<p>The proposal was approved by votes of the shareholders.</p> <ul style="list-style-type: none"> <li>Number of votes cast for the proposal: 2,015,222,576 votes (198,449,849 of which were cast electronically), accounted for 77.13% of the total voting shares present in person or by proxy</li> <li>Number of votes cast against the proposal: 247,815,334 votes (all of which were cast electronically)</li> <li>Abstentions via the electronic voting system: 338,132,870</li> <li>Spoilt votes: 0</li> </ul>	Announced as approved by the shareholders' meeting

## 2. Major Board Resolutions

Date	Resolutions	Commentary
January 5, 2017	<ol style="list-style-type: none"> <li>(1) Officers' year-end bonus and profit distribution plans of the Company</li> <li>(2) Proposal of maximum loan balance of the Company</li> <li>(3) Proposal of endorsement and guarantee of obligations provided by the Company</li> </ol>	Approved by the unanimous decision of the directors presented
March 20, 2017	<ol style="list-style-type: none"> <li>(1) 2016 director, supervisor and employee profit distribution plans of the Company</li> <li>(2) Discussion of the Company's 2016 Consolidated Financial Statements and Individual Financial Statements</li> <li>(3) Proposal of the date and location of the 2017 Annual General Meeting as well as the reasons to convene the meeting</li> <li>(4) Proposal of the period and location accepting shareholder proposals and independent director candidate nominations for the 2017 Annual General Meeting</li> <li>(5) Auditor independence evaluation report</li> <li>(6) Approval of the Company's 2016 Internal Control Statement</li> <li>(7) Discussion of the Company's Remuneration Committee Charter Amendments</li> <li>(8) Proposal of maximum loan balance of the Company</li> <li>(9) Proposal of endorsement and guarantee of obligations provided by the Company</li> </ol>	Approved by the unanimous decision of the directors presented
April 26, 2017	<ol style="list-style-type: none"> <li>(1) Ratification of the Company's 2016 profit distribution and business report</li> <li>(2) Review of independent director candidates</li> <li>(3) Proposal to re-elect the directors (including independent directors) of the Company</li> <li>(4) Proposal to release the new directors of the Company from non-competence restrictions</li> <li>(5) Ratification of disposal of fixed assets to related parties</li> <li>(6) Amendments to the internal control system manual of the Company</li> <li>(7) Discussion of the proposed amendments to the Company's Articles of Incorporation</li> <li>(8) Discussion of the proposed amendments to the Company's Procedures for the Acquisition and Disposal of Assets</li> <li>(9) Discussion of the proposed amendments to the Company's Rules Governing Fund Lending and Endorsement and Guarantee</li> <li>(10) Discussion of the proposed amendments to the Company's Rules for Election of Directors and Supervisors</li> <li>(11) Discussion of the proposed amendments to the Company's Rules and Procedures for Board Meetings</li> <li>(12) Discussion of the proposed amendments to the Company's Corporate Governance Best Practice Principles</li> <li>(13) Discussion of the proposed amendments to the Company's Ethical Corporate Management Best Practice Principles</li> <li>(14) Discussion of the amendments to the Company's Operating Procedures to Suspend and Resume Transactions</li> <li>(15) Discussion of the amendments to the Company's Procedures for Professional Accounting judgments and Processes for Making Changes in Accounting Policies and Estimates</li> <li>(16) Proposal to amend the Company's Audit Committee Charter</li> </ol>	Approved by the unanimous decision of the directors presented
May 10, 2017	<ol style="list-style-type: none"> <li>(1) Ratification of the Company's Q1 2017 Consolidated Financial Statements</li> <li>(2) Payment of 2016 director and supervisor remuneration</li> <li>(3) Proposal of the issuance of unsecured corporate bonds of 2017</li> </ol>	Approved by the unanimous decision of the directors presented

June 15, 2017	(1) Appointment of Chairman of the Board	Approved by the unanimous decision of the directors presented
July 6, 2017	(1) Proposal of ex-dividend date (2) Ratification of appointment and removal of personnel (3) Proposal to acquire the equities of Maxxis International (Thailand) Co., Ltd. from an individual (4) Proposal of the capital increase to Maxxis Rubber India Private Limited (5) Proposal of endorsement and guarantee of obligations provided by the Company (6) Proposal of maximum loan balance of the Company	Approved by the unanimous decision of the directors presented
August 10, 2017	(1) Ratification of the Company's Q2 2017 Consolidated Financial Statements (2) Appointment of members of the Remuneration Committee of the Company (3) Review and discussion of independent director remuneration (4) Amendments to the Company's Rules and Procedures for Board Meetings (5) Amendments to the Audit Committee Charter (6) Proposal of maximum loan balance of the Company (7) Proposal of endorsement and guarantee of obligations provided by the Company	(1) Approved by the unanimous decision of the directors presented (2) Due to a conflict of interest, independent directors, Hsu, En-De and Chen, Shuei-Jin recused themselves and abstained from voting on the second proposal; Hsu, En-De, Too, Jui-Rze and Chen, Shuei-Jin recused themselves and abstained from voting on the third proposal. These proposals were approved by the unanimous decision of the remaining directors presented.
November 9, 2017	(1) Ratification of the Company's Q3 2017 Consolidated Financial Statements (2) Proposal to adopt the Company's 2018 Audit Plan (3) Amendments to the internal control system manual of the Company (4) Proposal of the pension payment standards for Deputy General Manager, Wu, Hsuan-Miao (5) Appointment of Head of Accounting (6) Proposal of maximum loan balance of the Company (7) Proposal of endorsement and guarantee of obligations provided by the Company	Approved by the unanimous decision of the directors presented
January 24, 2018	(1) Officers' year-end bonus and profit distribution plans of the Company (2) Execution of the Company's 2017 Audit Plan (3) Proposal to participate in the capital increase of PT MAXXIS International Indonesia (4) Proposal of the capital increase to Maxxis Rubber India Private Limited (5) Proposal of maximum loan balance of the Company	Approved by the unanimous decision of the directors presented
March 20, 2018	(1) 2017 director and employee profit distribution plans of the Company (2) Discussion of the Company's 2017 business report, consolidated financial statements and separate financial statements (3) The Company's 2017 profit distribution plan (4) Proposal of the date and location of the 2018 Annual General Meeting as	

	<p>well as the reasons to convene the meeting</p> <p>(5) Proposal of the period and location accepting shareholder proposals for the 2018 Annual General Meeting</p> <p>(6) Auditor independence evaluation report</p> <p>(7) Review of the effectiveness of the Company's 2017 Internal Control System and approval of the Internal Control Statement</p> <p>(8) Amendments to the Company's Procedures for the Acquisition and Disposal of Assets</p> <p>(9) Proposal to release directors of the Company from non-compete restrictions</p> <p>(10) Evaluation of the adoption and implementation of IFRS 16 — Leases</p> <p>(11) Proposal to set up a company in Europe for sales operations</p> <p>(12) Proposal of maximum loan balance of the Company</p> <p>(13) Proposal of endorsement and guarantee of obligations provided by the Company</p>	
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- (15) Major issues of record or written statements made by any director or supervisor dissenting to major resolutions passed by the Board during the current fiscal year and as of the date of the Annual Report: none.
- (16) Summary of resignation and removal of key individuals involved in the financial reporting of the Company, including chairman, general manager, head of accounting, head of finance, head of internal audit, and head of research and development departments, during the current fiscal year and as of the date of the Annual Report:

Title	Name	Date of on board	Date of Termination	Reason for Resignation or Removal
Head of Accounting	Lo, Yung-Li	June 8, 2000	November 9, 2017	Reassignment

### 3.4 Accounting Fees

#### (1) Accounting Fees

Accounting Firm	Name of CPA		Audit Period	Commentary
PricewaterhouseCoopers Taiwan	Grace Hung	WU, DER-FENG	January 1, 2017 to December 31, 2017	

Note: If there has been a change of certified public accountants or independent public accounting firm during the current fiscal year, the Company shall disclose the information regarding the audit period covered by the predecessor auditor and successor auditor as well as the reasons for change of auditors in the commentary column.

Fee Range	Items	Audit Fees	Non-audit Fees	Total Fees
1	Under NT\$2,000,000			
2	NT\$2,000,000 - NT\$3,999,999			
3	NT\$4,000,000 - NT\$5,999,999			
4	NT\$6,000,000 - NT\$7,999,999	NT\$7,000,000		
5	NT\$8,000,000 - NT\$9,999,999			
6	NT\$10,000,000 and above		NT\$52,238	NT\$59,238

1. Disclosure of audit and non-audit fees as well as details of the non-audit services where the non-audit fees paid to the certified public accountants, the independent certified public accounting firm and/or its affiliates account for 25% or more of the audit fees:

The audit fees are NT\$7,000,000 and the non-audit fees are NT\$52,238,000. The non-audit fees were paid mainly for consultation on replacing the Company's operating system with SAP, business income tax audit, CSR report service, English translations of annual report, meeting handbook and financial statements, and transfer pricing.

2. Disclosure of the amount, percentage and reasons of decrease in audit fees where there has been a change of auditors and the audit fees are lower than the previous fiscal year: N/A

3. Disclosure of the amount, percentage and reasons of decrease where the audit fees are lower than the previous fiscal year by 15% or more:

N/A.

#### 3.5 Change of Auditors: none

(1) Information of Predecessor Auditor: N/A

(2) Information of Successor Auditor: N/A

3.6 Disclosure of any of the Company's Chairman, General Manager, General Manager, Manager in charge of financial or accounting affairs who has held a position at the Company's independent certified public accounting firm or its affiliates within the last year: None.

3.7 Transfer or Pledge of Shares by Directors, Managers and Shareholders who hold 10% of the Company's shares or more during the current fiscal year and as of the date of the Annual Report

(1) Changes in Share Ownership of Directors, Managers and Major Shareholders (holding 10% shares or more)

Title	Name of Director or Major Shareholder	2017		2018 (As of April 16, 2018)	
		Number of Shares Held +(-)	Shares Pledged +(-)	Number of Shares Held +(-)	Shares Pledged +(-)
Chairman and Major Shareholder	Lo, Tsai-Jen	(60,000,000)	0	0	0
General Manager	Chen, Shiu-Hsiung	0	0	0	0
Director	Xie Shun Investment Corporation, represented by Chen, Shiu-Hsiung	0	0	0	0
Director	Jiu Shun Investment Corporation, represented by Chen, Yun-Hwa	80,000,000	0	0	0
Director	Hong Jing Investment Corporation, represented by Chiu, Li-Ching	(30,000,000)	0	150,000	0
Director	Min Xin Investment Corporation, represented by Cheng, Han-Chi	0	0	0	0
Director	Tseng, Shung-Chu	0	0	0	0
Director	Horning Yih Investment Corporation, represented by Lee, Chin-Chang	0	0	0	0
Director	Horning Yih Investment Corporation, represented by Lin, Hung-Yu				
Independent Director	Hsu, En-De	0	0	0	0
Independent Director	Too, Jui-Rze	0	0	0	0
Independent Director	Chen, Shuei-Jin	0	0	0	0

Deputy General Manager	Lee, Chin-Chang	0	0	0	0
Deputy General Manager	Lin, Hung-Yu	0	0	0	0
Deputy General Manager	Weng, Ming-Chun	10,000	0	0	0
Deputy General Manager	Huang, Chung-Jen	0	0	0	0
Deputy General Manager	Peng, Wen-Hsing	0	0	0	0
Deputy General Manager	Huang, Chieh-Hsiang	0	0	0	0
Deputy General Manager	Hsu, Chih-Ming	0	0	0	0
Deputy General Manager	Lin, Yu-Yu	0	0	0	0
Deputy General Manager	Liao, Cheng-Yao	0	0	0	0
Deputy General Manager	Lee, Hung-Ko	0	0	0	0
Deputy General Manager	Lai, Kuo-Ti	0	0	0	0
Deputy General Manager	Liu, Chao-Sheng	0	0	0	0
Senior Manager	Lin, Chen-Chieh	0	0	0	0
Senior Manager	Wei, Chi-Chiang	0	0	0	0
Senior Manager	Ho, Chin-Fang	0	0	0	0
Senior Manager	Lin, Chin-Chuan	0	0	0	0
Senior Manager	Chang, Chuan-Shun	0	0	0	0
Senior Manager	Mao, Yu-Fu	0	0	0	0
Senior Manager	Huang, Kuo-Tsai	5,000	0	0	0
Senior Manager	Huang, Yang-Hsun	0	0	0	0
Senior Manager	Chen, Ying-Kuang	0	0	0	0
Senior Manager	Lo, Chen-Jung	0	0	0	0

Senior Manager	Chang, Ghi-Jung	0	0	0	0
Senior Manager	Chang, Chin-Lu	0	0	0	0
Senior Manager	Liu, Ching-Chung	0	0	0	0
Senior Manager	Chen, Shu-Yu	0	0	0	0
Senior Manager	Chiang, Kui-Yung	0	0	0	0
Senior Manager	Chang, Chin-Ming	0	0	0	0
Senior Manager	Hu, Ming-Te	0	0	0	0
Chief Financial Officer	Lo, Yung-Li	0	0	0	0
Chief Accounting Officer (Note)	Chang, Ya-Ching	0	0	0	0
Major Shareholder	Luo, Ming-Han	0	0	0	0

Note: Chief Accounting Officer, Chang, Ya-Ching, was on board on November 09, 2017. Senior Manager, Huang Chung-Jen, retired on March 30, 2018.

(2) Transfer of Shares

Name	Reason for Transfer	Date of Transaction	Transferee	Relationship between Transferee and the Company, its Directors, Supervisors or Major Shareholders	Number of Shares	Transfer Price (NT\$)
Lo, Tsai-Jen	Gift	July 13, 2017	Luo, Yuan-Yu	Adult Child	60,000,000	65.10
Chiu, Li-Ching	Gift	July 13, 2017	Luo, Yuan-Long	Adult Child	30,000,000	65.10
Lo, Ming-I	Gift	October 25, 2017	Chen, Yun-Hwa	Spouse	80,000,000	60.00

(3) Pledged Shares

Shares pledged to related parties: None

3.8 Information of the Top Ten Largest Shareholders who are Related Parties or have a Spousal or Familial Relationship within the Second Degree of Kinship

(1) Relationship among Top Ten Largest Shareholders

Name (Note 1)	Share Ownership		Share Ownership of Spouses and Children who are Minors		Shares Held under Nominee Accounts		Top Ten Largest Shareholders who are Related Parties or have a Spousal or Familial Relationship within the Second Degree of Kinship		Commentary
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Luo, Ming-Han	370,176,378	11.42%	0	0%	0	0%	Luo, Jye, Chen, Shiu-Hsiung, Lo, Tsai-Jen, Lo, Ming-I, Chen, Yun-Hwa, and Luo, Yuan-Yu	Relative within the second and third degree of kinship	-
Lo, Tsai-Jen	283,225,502	8.74%	27,996,793	0.86%	32,672,000	1.00%	Luo, Jye, Chen, Shiu-Hsiung, Luo, Ming-Han, Lo, Ming-I, Chen, Yun-Hwa, and Luo, Yuan-Yu	Relative within the second and third degree of kinship	-
Luo, Jye	224,163,978	6.92%	0	0%	0	0%	Lo, Ming-I, Chen, Shiu-Hsiung, Lo, Tsai-Jen, Luo, Ming-Han, Chen, Yun-Hwa, and Luo, Yuan-Yu	Relative within the second and third degree of kinship	-
Luo, Yuan-Yu	138,052,547	4.26%	0	0%	0	0%	Luo, Jye, Lo, Tsai-Jen, Luo, Ming-Han, Lo, Ming-I, Chen, Yun-Hwa, and Chen, Shiu-Hsiung	Relative within the second and third degree of kinship	-
Chen, Yun-Hwa	120,570,531	3.72%	82,492,443	2.55%	13,391,000	0.41%	Luo, Jye, Lo, Tsai-Jen, Luo, Ming-Han, Chen, Yun-Hwa, and Luo, Yuan-Yu, and Chen, Shiu-Hsiung	Relative within the second and third degree of kinship	-
Lo, Ming-I	82,492,443	2.54%	120,570,531	3.72%	13,391,000	0.41%	Luo, Ming-Han, Chen, Shiu-Hsiung, Lo, Tsai-Jen, Luo, Jye, Chen, Yun-Hwa, and Luo, Yuan-Yu	Relative within the second and third degree of kinship	-
Cathay Life Insurance Co., Ltd.	64,916,000	2.00%	0	0%	0	0%	N/A	N/A	-
Fubon Life Insurance Co., Ltd.	64,725,991	2.00%	0	0%	0	0%	N/A	N/A	-

Chen, Shiu-Hsiung	57,819,456	1.78%	52,945,516	1.63%	31,280,000	0.97%	Luo, Ming-Han, Lo, Ming-I, Lo, Tsai-Jen, Luo, Jye, Chen, Yun-Hwa, and Luo, Yuan-Yu	Relative within the second and third degree of kinship	-
Nan Shan Life Insurance Co., Ltd.	54,732,900	1.69%	0	0%	0	0%	N/A	N/A	-

Note 1: The names of the shareholders shall be listed individually (corporate shareholders shall include both the company name and name of representative)

Note 2: Percentage in share ownership shall be the total shares held whether in the names of the individual, his/her spouse, children who are minors or under nominee accounts.

Note 3: Relationship between the aforementioned shareholders (including juristic and natural persons) shall be disclosed according to Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### 3.9 Share Ownership in Affiliated Companies

A summary of share ownership by the Company and its directors, supervisors, managers, as well as entities controlled directly and indirectly by the Company is as follows:

Affiliated Companies (Note)	Ownership by the Company		Ownership by Directors, Supervisors, Managers and Entities Directly or Indirectly Controlled by the Company		Total Ownership	
	Shares	%	Shares	%	Shares	%
Maxxis International Co., Ltd.	35,050,000	100%	0	0%	35,050,000	100%
CST Trading Ltd.	72,900,000	100%	0	0%	72,900,000	100%
Cheng Shin Rubber USA, Inc.	1,800,000	100%	0	0%	1,800,000	100%
Maxxis Trading Ltd.	237,811,720	100%	0	0%	237,811,720	100%
New Pacific Industry Company Limited	5,000,000	50%	0	0%	5,000,000	50%
Cheng Shin Rubber Canada, Inc.	1,000,000	100%	0	0%	1,000,000	100%
Cheng Shin Holland B.V.	9,708	30%	0	0%	9,708	30%
Maxxis Tech Center Europe B.V.	1,000,000	100%	0	0%	1,000,000	100%
PT MAXXIS International Indonesia	79,997,000	99.99625%	3,000	0.00375%	80,000,000	100%
Maxxis Rubber India Private Limited	549,995,541	99.9992%	4,459	0.0008%	550,000,000	100%
Maxxis Trading Company Limited	10,000,000	100%	0	0%	10,000,000	100%
PT. MAXXIS TRADING INDONESIA	999,000	99.9%	1000	0.1%	1,000,000	100%

Note 1: Investments of the Company are accounted for using the equity method.

Note2: Numbers are as of December 31, 2017.

#### IV. Capitalization

##### 4.1 Capital and Shares

###### (1) Source of Capital

Month/Year	Issue Price/Par Value (NT\$)	Authorized Capital		Paid-in Capital		Commentary		
		Number of Shares	Amount	Number of Shares	Amount	Sources of Capital	Capital Increase by Assets Other Than Cash	Other
August 1988	10	162,509,490	1,625,094,900	162,509,490	1,625,094,900	Capital increase from retained earnings	None	-
August 1989	10	203,136,863	2,031,368,630	203,136,863	2,031,368,630	Capital increase from retained earnings	None	-
August 1990	10	243,764,236	2,437,642,360	243,764,236	2,437,642,360	Capital increase from retained earnings	None	-
May 1991	10	263,265,375	2,632,653,750	263,265,375	2,632,653,750	Capital increase from retained earnings	None	Jing (80) Shang No.118965 dated September 7, 1991
July 1992	10	315,918,450	3,159,184,500	315,918,450	3,159,184,500	Capital increase from retained earnings	None	Jing (81) Shang No.118426 dated August 31, 1992
July 1993	10	363,306,218	3,633,062,180	363,306,218	3,633,062,180	Capital increase from retained earnings	None	Jing (82) Shang No.115285 dated August 13, 1993
July 1994	10	421,435,213	4,214,352,130	421,435,213	4,214,352,130	Capital increase from retained earnings	None	Jing (83) Shang No.112989 dated September 2, 1994
August 1995	10	501,507,903	5,015,079,030	501,507,903	5,015,079,030	Capital increase from retained earnings	None	Jing (84) Shang No.111207 dated August 16, 1995
August 1996	10	551,658,693	5,516,586,930	551,658,693	5,516,586,930	Capital increase from retained earnings	None	Jing (85) Shang Zi No.111479 dated August 12, 1996
July 1997	10	606,824,562	6,068,245,620	606,824,562	6,068,245,620	Capital increase from retained earnings	None	Jing (86) Shang Zi No.111867 dated July 18, 1997
December 1998	10	679,643,509	6,796,435,090	679,643,509	6,796,435,090	Capital increase from retained earnings	None	Jing (87) Shang Zi No.087142412 dated December 29, 1998
August 1999	10	747,607,860	7,476,078,600	747,607,860	7,476,078,600	Capital increase from retained earnings	None	Jing (88) Shang Zi No.088127496 dated August 4, 1999
August 2000	10	784,988,253	7,849,882,530	784,988,253	7,849,882,530	Capital increase from retained earnings	None	Jing (89) Shang Zi No.089127105 dated August 1, 2000
August 2001	10	836,012,489	8,360,124,890	836,012,489	8,360,124,890	Capital increase from	None	Jing (90) Shang Zi No.09001288800

								retained earnings				dated August 22, 2001	
August 2002	10	886,173,238	8,861,732,380	886,173,238	8,861,732,380	886,173,238	8,861,732,380	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09101319120 dated August 15, 2002	
August 2003	10	957,067,097	9,570,670,970	957,067,097	9,570,670,970	957,067,097	9,570,670,970	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09201240400 dated August 8, 2003	
August 2004	10	1,048,945,538	10,489,455,380	1,048,945,538	10,489,455,380	1,048,945,538	10,489,455,380	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09301149390 dated August 18, 2004	
September 2005	10	1,138,105,908	11,381,059,080	1,138,105,908	11,381,059,080	1,138,105,908	11,381,059,080	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09401168800 dated September 5, 2005	
September 2006	10	1,217,773,322	12,177,733,220	1,217,773,322	12,177,733,220	1,217,773,322	12,177,733,220	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09501191430 dated August 30, 2006	
September 2007	10	1,303,017,454	13,030,174,540	1,303,017,454	13,030,174,540	1,303,017,454	13,030,174,540	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09601224190 dated September 14, 2007	
September 2008	10	1,498,470,072	14,984,700,720	1,498,470,072	14,984,700,720	1,498,470,072	14,984,700,720	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09701236220 dated September 15, 2008	
September 2009	10	1,648,317,079	16,483,170,790	1,648,317,079	16,483,170,790	1,648,317,079	16,483,170,790	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09801202660 dated September 4, 2009	
August 2010	10	2,060,396,349	20,603,963,490	2,060,396,349	20,603,963,490	2,060,396,349	20,603,963,490	Capital increase from retained earnings	None			Jing Shou Shang Zi No.09901193360 dated August 25, 2010	
August 2011	10	2,472,475,619	24,724,756,190	2,472,475,619	24,724,756,190	2,472,475,619	24,724,756,190	Capital increase from retained earnings	None			Jing Shou Shang Zi No.10001194070 dated August 22, 2011	
August 2012	10	2,818,622,206	28,186,222,060	2,818,622,206	28,186,222,060	2,818,622,206	28,186,222,060	Capital increase from retained earnings	None			Jing Shou Shang Zi No.10101174280 dated August 27, 2012	
August 2013	10	3,241,415,536	32,414,155,360	3,241,415,536	32,414,155,360	3,241,415,536	32,414,155,360	Capital increase from retained earnings	None			Jing Shou Shang Zi No.10201172870 dated August 29, 2013	
												As of December 31, 2017 (In shares)	
Type of Shares	Authorized Capital												
		Outstanding Shares		Unissued Shares		Total							
TWSE Listed Common Stock		3,241,415,536		0		3,241,415,536							-

## (2) Shareholder Structure

As of April 16, 2018

Shareholder structure	Government Agencies	Financial Institutions	Other Juristic Persons	Foreign Institutions and Natural Persons	Individuals	Total
Numbers						
Number of Shareholders	8	30	353	641	94,518	95,550
Number of Shares	113,444,662	298,307,391	408,902,252	357,837,234	2,062,923,997	3,241,415,536
Share Ownership %	3.50%	9.20%	12.62%	11.04%	63.64%	100.00%

## (3) Share Ownership Distribution

As of April 16, 2018

At Par Value NT\$10

Share Ownership by Range			Number of Shareholders	Number of Shares	Share Ownership %
1	-	999	17,945	5,332,956	0.16%
1,000	-	5,000	55,682	122,685,784	3.78%
5,001	-	10,000	10,939	85,210,535	2.63%
10,001	-	15,000	3,648	46,266,152	1.43%
15,001	-	20,000	2,406	43,821,957	1.35%
20,001	-	30,000	1,760	44,718,169	1.38%
30,001	-	40,000	880	31,340,564	0.97%
40,001	-	50,000	515	23,743,771	0.73%
50,001	-	100,000	908	64,376,758	1.99%
100,001	-	200,000	382	53,612,677	1.65%
200,001	-	400,000	170	46,658,205	1.44%
400,001	-	600,000	64	31,603,336	0.97%
600,001	-	800,000	42	29,415,919	0.91%
800,001	-	1,000,000	25	22,154,102	0.68%
1,000,001 and above			184	2,590,474,651	79.92%
Total			95,550	3,241,415,536	100.00%

Note: The Company has not issued preferred shares.

(4) Major Shareholders

As of April 16, 2018

Name	Number of Shares	Share Ownership %
Luo, Ming-Han	370,176,378	11.42%
Lo, Tsai-Jen	283,225,502	8.74%
Luo, Jye	224,163,978	6.92%
Luo, Yuan-Yu	138,052,547	4.62%
Chen, Yun-Hwa	120,570,531	3.72%
Lo, Ming-I	82,492,443	2.54%
Cathay Life Insurance Co., Ltd.	64,916,000	2.00%
Fubon Life Insurance Co., Ltd.	64,725,991	2.00%
Chen, Shiu-Hsiung	57,819,456	1.78%
Nan Shan Life Insurance Co., Ltd.	54,732,900	1.69%

Note: The list of major shareholders includes shareholders with 1% or more share ownership and/or the top 10 largest shareholders.

## (5) Market Price, Net Value, Earnings, and Dividend per Share

In Shares or NT\$

Item		Year	2016	2017	2018
					(As of March 31, 2018)
Market Price per Share (Note 1)	Highest Price		72.9	67.10	53.20
	Lowest Price		48.55	50.40	46.85
	Average		63.27	60.69	50.05
Net Value per Share (Note 2)	Before Distribution		26.99	25.36	26.03
	After Distribution		26.99	25.36	-
Earnings per Share	Weighted Average of Shares		3,241,415,536	3,241,415,536	3,241,415,536
	Earnings per Share (Note 3)	Before Adjustment	4.09	1.71	0.37
		After Adjustment	4.08	1.71	-
Dividend per Share	Cash Dividend		3.00	1.80 (Note 8)	-
	Stock Dividend	Paid out of Retained Earnings	0	0	-
		Paid out of Capital Surplus	-	-	-
	Accrued Unpaid Dividends (Note 4)		-	-	-
Return on Investment	P/E Ratio (Note 5)		15.47	35.49	-
	Price/Dividend Ratio (Note 6)		21.09	33.72	-
	Cash Dividend Yield (Note 7)		4.74%	2.97%	-

Note 1: List the highest and lowest market price in each fiscal year and calculate the average market price based on the trading value and volume.

Note 2: Please fill out the figures according to the number of outstanding shares at the end of the fiscal year and the resolution regarding distribution by the shareholders' meeting the following year.

Note 3: Please fill out basic and diluted earnings per share if retroactive adjustment is necessary due to stock dividend payout.

Note 4: If the terms of issuance of the equity securities provide that any dividends declared but not paid may be carried forward until the Company has earnings, the amount of accrued unpaid dividends as at the end of such fiscal year shall be disclosed.

Note 5:  $P/E \text{ Ratio} = \text{Average Market Price per Share} / \text{Earnings per Share}$

Note 6:  $\text{Price/Dividend Ratio} = \text{Average Market Price per Share} / \text{Cash Dividend per Share}$

Note 7:  $\text{Cash Dividend Yield} = \text{Cash Dividend per Share} / \text{Average Market Price per Share}$

Note 8: The distribution of earnings this year has not been approved by the annual general meeting of the shareholders.

(6) Dividend Policy and Implementation

Our dividend policy is as follows:

1.If the Company has pre-tax earnings for the fiscal year after the accounts are closed, after setting aside an amount to pay any business income tax due, the Company shall first offset the losses of previous year(s) and then set aside ten percent (10%) of the residual amount as the legal reserve, and shall, in accordance with applicable laws and regulations, set aside a portion of the after-tax earnings for its special reserve. To the extent that there is any balance of the Company's after-tax earnings remaining, the total earnings available for distribution shall consist of the remainder of such balance and the retained earnings from the previous year(s). The board of directors may propose a profit distribution plan for approval at the shareholders' meeting.

The shareholder dividends declared under such a plan shall be ten to eighty percent (10-80%) of the total distributable earnings, from which the cash dividends shall be ten percent (10%) or more of the total dividends declared.

2.Proposed Dividend Payment by the Shareholders' Meeting

After the appropriation of legal reserve, the total after-tax earnings of the Company available for distribution, which includes retained earnings carried forward from previous year(s), was NT\$349,903,614,898 in the 2017 Fiscal Year. It is proposed that NT\$5,834,547,965 of cash dividends be paid to the shareholders (at NT\$1.8 per share) in accordance with the Articles of Incorporation of the Company.

(7) Impact of the proposed stock dividend payment by the shareholders' meeting on the business performance and earnings per share of the Company

The Company did not declare any stock dividend, and therefore no impact was expected on the business performance and earnings per share of the Company.

(8) Employee Bonus and Director and Supervisor Remuneration

1.Percentage or Range of Employee Remuneration and Director and Supervisor Remuneration under the Articles of Incorporation

To the extent that there is any balance of the Company's after-tax earnings remaining, an amount no less than two percent (2%) of such balance shall be paid out as employee bonus and no more than three percent (3%) of such balance shall be paid out as director remuneration, provided that, however, the Company shall first offset the cumulative losses, if any.

Employee bonus shall be paid in the form of stocks or cash, and director and supervisor remuneration shall be paid in the form of cash. The payout shall be approved by more than one half of the directors present at the Board meeting attended by at least two-thirds of all directors, and shall be reported at the shareholders' meeting.

Individuals eligible to receive stock or cash bonus in the preceding paragraph

include employees of the Company's subsidiaries who meet certain criteria, which shall be discussed and decided by the Board of Directors.

2. The Basis of the Estimate of Employee Bonus and Director Remuneration, the Basis of Calculating Number of Shares where Stock Bonuses are Paid, as well as Accounting Treatment in Case of Deviation between the Amount of Actual Payment and the Estimate:

The deviation will be recognized as profit or loss in the following fiscal year.

3. Distribution of Employee Bonus Recommended by the Board

- The amount of employee cash bonus and director remuneration. In the event that the amount of the actual payment of employee cash bonus and director and supervisor remuneration deviates from the estimate in the fiscal year where such payment is recognized as an expense, the difference of the value as well as reason for deviation and accounting treatment shall be disclosed

The Company has allocated NT\$145,330,000 as employee cash bonus and NT\$118,590,000 as director remuneration in 2017. Comparing the revenues and profitability of the Company in 2017 to those in 2016 and taking into account the amount of payout in 2016, the proposal was reviewed by the Remuneration Committee and the Board has passed a resolution and recommends that NT\$145,330,000 to be paid out as employee cash bonus and NT\$107,617,000 as director remuneration. Deviation between the estimate and actual payment amount will be recognized as profit (loss) in the 2018 Fiscal Year.

- Proposed employee stock bonus in percentage of after-tax earnings and total employee bonus in Fiscal Year 2017

The Company's 2017 profit distribution plan has been approved by the Board of Directors and no employee stock bonus was declared.

- The estimated earnings per share is NT\$1.71 after the employee bonus and director remuneration are paid out.

#### 4. Employee Remuneration and Director and Supervisor Remuneration in the 2016 Fiscal Year

The following summarizes the employee remuneration and director and supervisor remuneration in the 2016 Fiscal Year:

Items	Approved Distribution (NT\$)	Deviation	Reason for Deviation
Employee remuneration	324,446,056	—	N/A
Director and supervisor remuneration	264,747,982	—	N/A

Note: The Board of Directors of the Company is authorized to determine the remuneration of the directors based on director remuneration of comparable companies in the industry; provided, however, independent directors may not participate in the distribution of remuneration set forth in Article 36 of the Articles of Incorporation of the Company.

(9) Repurchase of the Company's shares: None

#### 4.2 Corporate Bonds

Type of Bonds	Cheng Shin Rubber Ind. First Offering of Unsecured Ordinary Bonds of 2013	Cheng Shin Rubber Ind. First Offering of Unsecured Ordinary Bonds of 2014	Cheng Shin Rubber Ind. First Offering of Unsecured Ordinary Bonds of 2016	Cheng Shin Rubber Ind. First Offering of Unsecured Ordinary Bonds of 2017
Issuance Date	August 19, 2013	July 18, 2014	September 26, 2016	August 10, 2017
Denomination	NT\$1 million	NT\$1 million	NT\$1 million	NT\$1 million
Location of Issuance and Transaction	N/A	N/A	N/A	N/A
Issue Price	At Par	At Par	At Par	At Par
Total Amount	NT\$3.8 billion	NT\$4.8 billion	NT\$5 billion	NT\$7 billion
Interest Rate	1.55%	1.4%	0.71%	1.03%
Maturity	5 Years Maturity Date: August 19, 2018	5 Years Maturity Date: July 18, 2019	5 Years Maturity Date: September 26, 2021	5 Years Maturity Date: August 10, 2022
Guarantor	None	None	None	None
Trustee	Taipei Fubon Commercial Bank	Mega International Commercial Bank	Mega International Commercial Bank	Taipei Fubon Commercial Bank
Underwriter	N/A	N/A	Yuanta Securities Co., Ltd.	Yuanta Securities Co., Ltd.
Legal Counsel	N/A	N/A	N/A	N/A
Auditor	Grace Hung and WU, DER-FENG, PricewaterhouseCoopers Taiwan	Grace Hung and WU, DER-FENG, PricewaterhouseCoopers Taiwan	Grace Hung and WU, DER-FENG, PricewaterhouseCoopers Taiwan	Grace Hung and WU, DER-FENG, PricewaterhouseCoopers Taiwan
Repayment	50% of the principal will be paid in the end of the fourth year and the remaining 50% will be paid in the end of the fifth year from the issue date	Repayment in lump sum at maturity	50% of the principal will be paid in the end of the fourth year and the remaining 50% will be paid in the end of the fifth year from the issue date	50% of the principal will be paid in the end of the fourth year and the remaining 50% will be paid in the end of the fifth year from the issue date
Outstanding Principal	NT\$1.9 billion	NT\$4.8 billion	NT\$5 billion	NT\$7 billion
Redemption or Early Repayment Clauses	None	None	None	None
Restrictive Clauses	None	None	None	None
Credit Rating	twA (Taiwan Ratings Corporation, May 2, 2013)	twA (Taiwan Ratings Corporation, February 21, 2014)	twA+ (Taiwan Ratings Corporation, February 25, 2016)	twA+ (Taiwan Ratings Corporation, February 21, 2017)

Type of Bonds	Cheng Shin Rubber Ind. First Offering of Unsecured Ordinary Bonds of 2013	Cheng Shin Rubber Ind. First Offering of Unsecured Ordinary Bonds of 2014	Cheng Shin Rubber Ind. First Offering of Unsecured Ordinary Bonds of 2016	Cheng Shin Rubber Ind. First Offering of Unsecured Ordinary Bonds of 2017
Amount of Common Shares, GDRs or Other Securities Converted, Exchanged or Subscribed as of the date of the publication of the Annual Report	N/A	N/A	N/A	N/A
Other Rights of Bondholders	N/A	N/A	N/A	N/A
Regulations of Issuance and Conversion/Exchange/Subscription	N/A	N/A	N/A	N/A
Potential Dilutive Effects on other Shares and Impact on the Rights of Existing Shareholders due to Regulations of Issuance and Conversion/Exchange/Subscription or Terms of Issue	N/A	N/A	N/A	N/A
Custodian	N/A	N/A	N/A	N/A

- 4.3 Preferred Shares: None
- 4.4 Global Depository Receipts (GDR): None
- 4.5 Employee Stock Options and Restricted Stocks for Employee: None
- 4.6 Issuance of New Shares due to Mergers and Acquisitions or Acquisition of Shares from other Companies: None

## 4.7 Financing Plans and Implementation

### (1) Financing Plans

#### 1. First Offering of Unsecured Ordinary Bonds of 2013

- Date of approval and approval document number: Jin Guan Zheng Fa Zi No.1020018282 issued by the Financial Supervisory Commission dated May 20, 2013
- Funds required for the project: NT\$3,800,000,000
- Source of financing: first offering of unsecured ordinary bonds of NT\$3,800,000,000
- Purpose of financing and progress of use:

in NT\$1000

Project Item	Estimated Completion Date	Funds Required	Estimated Progress of Use		
			2013		2014
			Q3	Q4	Q1
Paying off Liabilities (improving financial structure)	Q3 2013	\$1,239,200	\$1,239,200	-	-
Strengthening the Operating Capital	Q3 2013	\$2,560,800	\$2,560,800	-	-
Total		\$3,800,000	\$3,800,000	-	-

#### 2. First Offering of Unsecured Ordinary Bonds of 2014

- Date of approval and approval document number: Jin Guan Zheng Fa Zi No. 1030021640 issued by the Financial Supervisory Commission dated June 6, 2014
- Funds required for the project: NT\$4,800,000,000
- Source of financing: First offering of unsecured ordinary bonds of NT\$4,800,000,000
- Purpose of financing and progress of use:

in NT\$1000

Project Item	Estimated Completion Date	Funds Required	Estimated Progress of Use		
			2014		2015
			Q3	Q4	Q1
Paying off Liabilities (improving financial structure)	Q3 to Q4 2014	\$ 3,473,799	\$ 2,651,133	\$822,666	-
Strengthening the Operating Capital	Q3 2014	\$ 1,326,201	\$ 1,326,201	-	-
Total		\$ 4,800,000	\$ 3,977,334	\$822,666	-

### 3. First Offering of Unsecured Ordinary Bonds of 2016

- Date of approval and approval document number: Zheng Gui Zhai Zi No. 10500276052 issued by the Taipei Exchange dated September 20, 2016
- Funds required for the project: NT\$5,000,000,000
- Source of financing: First offering of unsecured bonds of NT\$5,000,000,000
- Purpose of financing and progress of use:

in NT\$1000

Project Item	Estimated Completion Date	Funds Required	Estimated Progress of Use	
			2016	
			Q3	
Paying off Liabilities (improving financial structure)	Q3 2016	\$3,838,002	\$3,838,002	
Strengthening the Operating Capital	Q3 2016	\$1,161,998	\$1,161,998	
Total		\$5,000,000	\$5,000,000	

### 4. First Offering of Unsecured Ordinary Bonds of 2017

- Date of approval and approval document number: Zheng Gui Zhai Zi No. 10600213862 issued by the Taipei Exchange dated August 7, 2017
- Funds required for the project: NT\$7,000,000,000
- Source of financing: First offering of unsecured bonds of NT\$7,000,000,000
- Purpose of financing and progress of use:

in NT\$1000

Project Item	Estimated Completion Date	Funds Required	Estimated Progress of Use	
			2017	
			Q3	
Paying off Liabilities (improving financial structure)	Q3 2017	\$4,910,001	\$4,910,001	
Strengthening the Operating Capital	Q3 2017	\$2,089,999	\$2,089,999	
Total		\$7,000,000	\$7,000,000	

(2) Implementation Status

1. Status of Funds Used and Implementation

➤ First Offering of Unsecured Ordinary Bonds of 2013

in NT\$1000

Project Item	Implementation Status		December 31, 2013	Reasons and Improvement Plans for Leading or Behind the Project Schedule
Improving Financial Structure (paying off long-term debts)	Fund Used	Proposed	\$1,239,200	Project Completed
		Used	\$1,239,200	
	Status (%)	Proposed	100%	
		Used	100%	
Strengthening the Operating Capital	Fund Used	Proposed	\$2,560,800	Project Completed
		Used	\$2,560,800	
	Status (%)	Proposed	100%	
		Used	100%	

➤ First Offering of Unsecured Ordinary Bonds of 2014

Project Item	Implementation Status		December 31, 2014	Reasons and Improvement Plans for Leading or Behind the Project Schedule
Paying off Liabilities (improving financial structure)	Fund Used	Proposed	\$3,473,799	Project Completed
		Used	\$3,473,799	
	Status (%)	Proposed	100%	
		Used	100%	
Strengthening the Operating Capital	Fund Used	Proposed	\$1,326,201	Project Completed
		Used	\$1,326,201	
	Status (%)	Proposed	100%	
		Used	100%	

in NT\$1000

➤ First Offering of Unsecured Ordinary Bonds of 2016

Project Item	Implementation Status		December 31, 2016	Reasons and Improvement Plans for Leading or Behind the Project Schedule
Paying off Liabilities (improving financial structure)	Fund Used	Proposed	\$3,838,002	Project Completed
		Used	\$3,838,002	
	Status (%)	Proposed	100%	
		Used	100%	
Strengthening the Operating Capital	Fund Used	Proposed	\$1,161,998	Project Completed
		Used	\$1,161,998	
	Status (%)	Proposed	100%	
		Used	100%	

in NT\$1000

➤ First Offering of Unsecured Ordinary Bonds of 2017

Project Item	Implementation Status		September 30, 2017	Reasons and Improvement Plans for Leading or Behind the Project Schedule
Paying off Liabilities (improving financial structure)	Fund Used	Proposed	\$4,910,001	Project Completed
		Used	\$4,910,001	
	Status (%)	Proposed	100%	
		Used	100%	
Strengthening the Operating Capital	Fund Used	Proposed	\$2,089,999	Project Completed
		Used	\$2,089,999	
	Status (%)	Proposed	100%	
		Used	100%	

in NT\$1000

## V. Operational Overview

### 5.1 Business Activities

#### (1) Business Scope

##### 1. Principal Businesses Activities

- i. C801990 Other Chemical Materials Manufacturing.
- ii. C802160 Sticky Tape Manufacturing.
- iii. C804010 Tires Manufacturing.
- iv. C804020 Industrial Rubber Products Manufacturing.
- v. C804990 Other Rubber Products Manufacturing.
- vi. CB01010 Machinery and Equipment Manufacturing.
- vii. F112040 Wholesale of Petrochemical Fuel Products.
- viii. F212050 Retail Sale of Petrochemical Fuel Products.
- ix. F401010 International Trade.
- x. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

##### 2. Revenues by Product Category

The revenues from the Company's major products are as follows:

in NT\$1000

Major Products	2017	
	Revenues	%
PCR	49,344,253	43.94%
TBR	24,114,255	21.47%
MC	12,790,493	11.39%
BC	9,013,169	8.03%
TUBE	5,111,525	4.55%
Other tires	12,889,612	11.48%
Other products	1,407,574	1.24%
Return, allowance, freight and insurance costs and others	-2,361,715	-2.10%
Total	112,309,166	100%

3. The Company's Current Products: PCR, TBR, MC, BC, TUBE and other tires.

#### 4.New Products in Development

- Product development of automobile spare tires
- Product development of High performance motorcycle tires
- Product development of radial motorcycles
- Product development of High performance bike tires
- Product development of MAXXIS innovative ATVs
- Product development of TBR
- Technology research project of TBR
- Product development of MAXXIS innovative PCR/LTR
- Technology research project of various energy saver tires

#### (2) Industry Overview

##### 1.Industry Situation and Development

With the domestic rapid economic development and the continuous development and innovation of this industry, tire businesses are also flourishing, which improves the industrial technology for higher level tires. The Company's main products are the cover tires for automobiles and motorcycles. Due to the small market and limited road areas in Taiwan, as well as increasing importation after Taiwan's participation in the WTO, which makes marketing and sales of tires even more difficult because Taiwan's domestic market is already saturate. In view of this, the Company will be dedicated to the development of tires with high performance, lightweight, low rolling resistance, safety and intelligence, so that the Company will be able to develop its market by continuously providing more leading products.

##### 2.Relationship Among the Supply Chain

After developing for decades, the rubber industry in Taiwan has formed a complete supply chain with upstream, midstream and downstream, which is as follows:

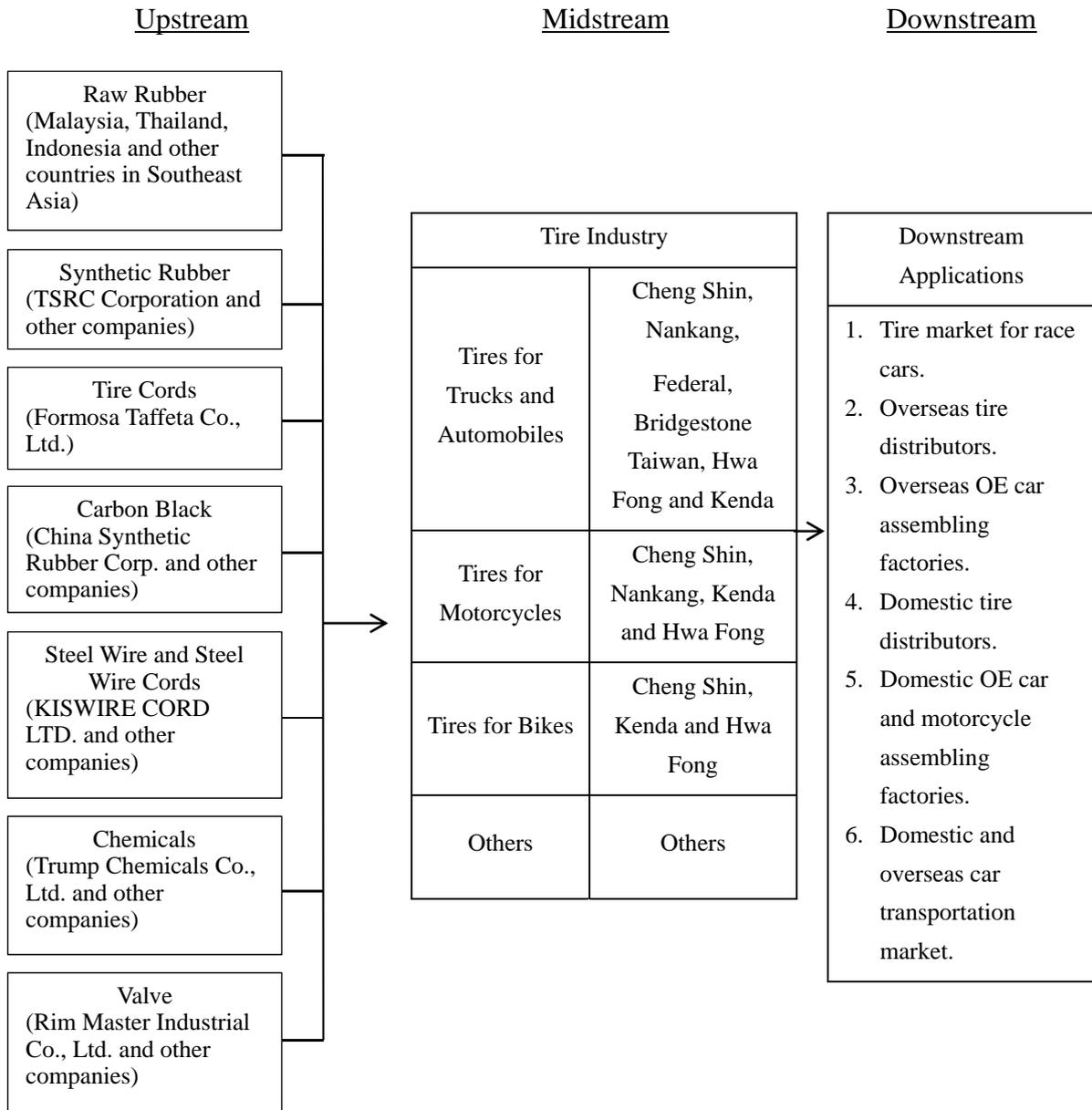
Upstream: capital-intensive raw material industry.

Midstream: technology-intensive processing industry.

Downstream: consisting of the applications in tire market for race cars, domestic and overseas OE car assembling factories, domestic and overseas tire distributors and car transportation market.

The diagram for upstream, midstream and downstream is as follows:

### Diagram of Relationship Among Tire Industry in Taiwan



### 3. Information of The Development Trends And Competition of Products:

For the entire market of tire products, the traditional cross-ply tires have been replaced gradually by the radial tires and the main reason is that the radial tires are able to reduce the possibility of flat tires and would provide the effects of oil saving, abrasion resistance and driving safety. Also, the development trend of tire products is low aspect ratio and high performance tires. Due to market needs and higher consumers' needs for environmental quality, the Company plans to manufacture and provide high performance tires, low rolling resistance tires, safety tires, intelligent tires, steel wire radial tires and other new products. The Company would

like to enhance its development power by improving its technology and increasing product diversity and would also like to develop and dominate the market by continuously expanding leading products.

(3) Overview on Technology, Research and Development

1.Costs of Research and Development During the Current Fiscal Year and as of the Date of the Annual Report

in NT\$1000

Item \ Year	2017	As of March 31, 2018
Costs of Research and Development	5,091,093	1,341,926
Net Operation Income	112,309,166	27,687,137
Percentage	4.53%	4.85%

Note: Above information is from the Company's consolidated financial statement.

2.Technology and Products Successfully Developed

- Product development of automobile spare tires
- Product development of High performance motorcycle tires
- Product development of High performance bike tires
- Product development project of tires for other vehicles
- Product development of new MAXXIS PCR
- Technology research project of TBR
- Product development of TBR
- Technology research project of various energy saving tires

(4) Long Term and Short Term Business Development Plan

1.Short Term Business Development Plan

- Conducting business on the current business basis, continuously developing products for all series and developing sales models which are suitable to different local markets.
- Carrying out a reasonable and flexible production procedure in order to reach the most proper operational business scale between production and sale; carrying out quality management in all aspects and striving for the goal of best quality.

2.Long Term Business Development Plan

- Continuously enhancing quality and developing private brands and increasing market share in order to establish globally complete distribution channels and brand management strategy.
- Continuously conducting research and development activities, maintaining the market leading position of manufacture technology and fully taking advantage of economies of scale for mass production.

## 5.2 Market and Sales Overview

### (1) Market Analysis

#### 1. Analysis of Overseas Market

- **Distribution Regions:** market analysis is made based on our distribution regions—North America, Central and South America, Europe, Middle East and Africa, Asia, and Oceania.
- **Market Shares:** Our revenue has remained at the top in Taiwan and we are the largest tire manufacturer in the Chinese-speaking region. Both of the world-renowned tire magazines, Tyres & Accessories and Tire Business, reported us as the 9<sup>th</sup> largest global tire manufacturer.
- **Future Market Supply and Demand and Prospect**

Cheng Shin's unceasing efforts in new product development have enabled us to continue as the No.1 brand in the China tire market with recognition. In 2016, our HP5 tires were ranked 3<sup>rd</sup> in a European Magazine tire test, ahead of several major global tire brands, and were ranked No.1 in the comprehensive performance assessment in an Australian Magazine tire test. We have been adding new specifications to the RFTs (Run Flat Tires), which are sold to more than 30 countries from our facilities in China. Our MS1 tires featuring comfort not only won 2017 China Tire of the Year but also surpassed those from several well-known manufacturers in the field test. Our high performance VS5 tires greatly expected by the market were highly acclaimed in the public field test in Spain and excelled those from the leading brands on the market in each performance assessment. The products provided by Cheng Shin demonstrate the upgrade of quality as well as the world-class standard in performance.

We have also made some breakthroughs in the development of our overseas market. Toyota's best-selling model Corolla Altis manufactured in Taiwan features Cheng Shin MAXXIS tires. These cars have been distributed to the Middle East regions and received recognition from local car owners. As the automotive industry in India is viewed as a potentially lucrative market, we continue to supply our Cheng Shin MAXXIS tires to the top three automotive factories in India, TATA, Maruti Suzuki and Mahindra & Mahindra for their car models, with an aim to enhance brand image and boost presence. While continuing to supply spare tires for Toyota vehicles assembled in North America, we have also successfully completed our spare tire development project for some of the best-selling car models of Subaru, becoming part of Subaru's supply chain in North America. In Mexico, several best-selling Nissan car models are equipped with Cheng Shin MAXXIS tires as well.

We have sold our products in over 180 countries worldwide. In addition to our strategic mapping of the overseas repairs market, we actively expand our distribution channels and locations. With the rapid growth of emerging markets and sustained economy recovery in the North America region, the global automotive industry is thriving and the demands for vehicle tires are boosting. Since the financial crisis, the automotive industry has been growing at a steady pace, further fueling the strong demands in certain markets, such as China, Brazil, India, Mexico, and the Middle East. As a result, major tire manufacturers around the world continue to invest in building new facilities to meet the anticipated demands in these markets.

With respect to our global strategy, we have offices set up in Dubai, the Netherlands, Japan, Panama, etc. and we plan to assign staff to countries including Mexico and Saudi Arabia to strengthen development of local markets and enhance customer satisfaction. Our existing offices in other countries have proven to be beneficial to the local market development.

The participation in production of factories in Douliou Taiwan, Chongqing and Xiamen Jimei in China has made Cheng Shin's global presence more integrated and the Group's global allocation of sales and internal resources more efficient. The internationally regulated trial-run facility in Shanghai is by far the most comprehensive tire test facility in Asia, which highlighted Cheng Shin's efforts to stand out in the industry. With regard to our comprehensive plan in Asia, our factory in India, which started manufacturing in August 2017, mainly aims at India's sales volume of 18 million motorcycles per year. Its production directly supplies motorcycle tires to assembly factories and will then explore India's automobile and truck tire market. Our factory in India produces 6 million motorcycle tires annually at the first phase. After the expansion completed at the third phase, the annual production volume will increase to 18 million tires. In Indonesia, since the commencement of the building of manufacturing facilities in 2016, we have been sending employees from different departments to be stationed at the factories to provide support. Our sales team has also been in close contact with local distribution networks to ensure smooth launching upon the completion of construction. The Indonesia facilities have successfully begun production in October 2017. At present, the maximum annual production volume is expected to reach 6 million tires and will go up to 12 million tires in the future. This mainly aims at the growth of ASEAN regional market. Our strategy to

focus on markets in India and Indonesian is expected to boost the future growth of our Group. Going forward, we will continue to recruit local technicians and sales force in India and Indonesia to increase the brand's local exposure and support customer services with an aim to demonstrate our 100% service quality.

➤ Competitive Edge

Our core beliefs are deeply rooted in every member of the Maxxis Family. Under the leadership of our Chairman, Lo Tsai Ren, we have established the four primary systems—Enterprise Resource Planning System (ERP), Manufacturing Execution System (MES), Product Lifecycle Management (PLM), and Customer Relationship Management (CRM), which will be introduced progressively to each manufacturing facility of Cheng Shin. Through the integration of Group resources, we are able to expand existing production capacity and manufacturing facilities to enhance our strategic, organizational, and technological capabilities. With these upgrades, we are confident in our ability to deliver continued revenue growth and attain our presence in the global tire industry.

Our new brand “PRESA” introduced through a differentiated distribution network from MAXXIS has secured a leading position in the market and continues to gain market share. We also introduced different products under the PRESA brand, such as LTR and TBR, to cater to market demands.

In 2017, Cheng Shin is recognized as one of the Top 10 Global Brands in Taiwan for the 15<sup>th</sup> consecutive year, an honor sponsored by the Bureau of Foreign Trade of the Ministry of Economic Affairs, Taiwan External Trade Development Council and Interbrand, a global brand consultancy. Cheng Shin's brand value is estimated to be USD 324 million. Cheng Shin adopts a global diversified brand-name strategy for its Cheng Shin, MAXXIS and PRESA brand names in line with different cultures. Our products are marketed with English brand names which incorporate elements of the western cultures to cater to western consumers. Not only has the Cheng Shin brand name been widely known in the Greater China region, but it also has been recognized as the best-selling brand under a well-known trademark in China. In the future, we aim to raise brand name recognition in the market, participate in auto shows in Taiwan and overseas, sponsor major sports events and grow consumers' appreciation of our brand names with a diversified strategy.

To strengthen the competitive edges of our products and develop the most adequate products, Cheng Shin set up the research and

development centers in the US and the Netherlands in the early years and formally launched the second-phased R&D building in Shanghai in 2017. In addition, the strategy of recruiting talents is reinforced to acquire world-class professionals to develop global products and elevate the group's entire competitiveness.

Cheng Shin has made significant improvements to its products by strengthening technical cooperation with raw material suppliers such as Degussa and Exxon. We seek to strike an ideal mechanical balance between treads and structure with the unique and innovative VIP (Virtual Intelligence Prototyping)/automated intelligent prototype design technique. There have been multiple research papers published in internationally renowned journals such as International Journal of Vehicle Design (UK) and International Journal of Materials and Product Technology (USA).

➤ **Advantages and Disadvantages for Developmental Vision and Action Plans**

Advantages

At the joint efforts of our factory building workers, our facilities in Indonesia and India began production in 2017.

The additional production capacity will help us cater to the rising tire demand and increase Cheng Shin's market share. Under the CEPT (Common Effective Preferential Tariff) Scheme of ASEAN, regional growth strengthened. The geographic advantages of our facilities in Indonesia, Thailand and Vietnam will readily support the supply in emerging markets and enable us to provide more competitive products to the consumers by keeping production local. By the collaboration with global automakers, we have made significant progress in promoting our tires for some of the best-selling car models around the world. During the recent years, we have successfully entered the supply chain of General Motors and Nissan in Mexico. These efforts are steps taken towards increasing our product exposure and market share in new markets.

Amid a global trend of consumption contraction, consumers are becoming more price-sensitive in making tire replacement purchases. Compared with tire manufacturers in Europe, America and Japan, Cheng Shin maintains a leading position in the market by providing more competitive products with outstanding quality and affordable prices, which creates a great opportunity for us to gain market share.

Disadvantages

Cheng Shin is facing the great challenge of competition from the second movers including China tire companies' factory establishment

in the US. Therefore, we have launched the planning of delivery strategies for global automobile manufacturers. Using our delivery experiences accumulated in the past, we hope we can form business relationships with more major automobile brands and then raise our group's size and sales volume.

As the volume of procurement was affected by volatile currency fluctuation due to political instability in the emerging markets, some tire manufacturers began to build factories and expanded their production capacity to join the local supply chain, posing a challenge to our competitiveness. Furthermore, raw material prices fluctuated in 2017. All these factors have influenced Cheng Shin's planning in the tire industry. .

We closely monitor the fluctuation in market supply and demands and make price adjustments when appropriate. We also share market intelligence with regional distributors proactively to replace less competitive products with capacity-efficient mass productions having higher added value to respond to the increasing market demands and constantly changing competitive environment.

Facing the management environment in 2018 and the forthcoming three to five years with even more drastic changes, we must swiftly enhance our adaptability, core ability and competitiveness. Only when we grasp the world-class ability and competitiveness will we be able to adapt to the complicated and changeable market. Thus, we will build our core ability with technology, operation and sales, productivity, and management in the future.

We will achieve glocalization to strengthen the sales and technology support of each region so that the global headquarters and different regions can closely cooperate with each other and the connection can be tightened with local manufacturing.

## 2. Analysis of Domestic Market

### ➤ 2017 Domestic Market Overview

The global market slowly recovered in 2017. Although this benefited the island-wide export capacity and the domestic needs grew steadily with the annual economic growth rate of 2.86%, the uncertain factors such as the direction of major countries' trade policies, the changes of global financial condition, and the geopolitical risks have all impacted the global economic performance. The tire market has transformed with the arrival of M-shaped society and the China brands grabbing the market with low-priced products. Only by continuing searching for the clients' ideas to understand the market needs and develop the products matching the clients' requirement will Cheng Shin be able to exceed in such a fierce competition with top-tier technology and

create a new business milestone.

Looking back on the auto market in 2017, the total sales volume of new cars made a new record of more than 440,000 in numbers and reached the high point in the latest 12 years. However, the quantity of the domestically manufactured vehicles dropped while that of the imported vehicles expanded. In addition, the imported brands lowered their prices and the China brands set low prices. Under these circumstances, Cheng Shin managed to possess a certain market share with its adequate group strategies and stable product quality.

Cheng Shin is the first to invent the concept of CAPDCA with C (Check), A (Action), P (Plan), D (Do), C (Check), and A (Action). We concentrate on the research and development of tires and dedicate ourselves to providing the clients with the best products and service, winning the top-tier position in the tire industry. In 2015, the HP5 tire was named “Tire of the Year” at the annual Tire of the Year Awards given by Motor Trend Magazine in China. In 2017, HP5 was ranked No.1 in the performance test by the Australian-based company, Driving Solutions, and awarded third place by Professional Driver Magazine in Europe. Our products are the pride of Taiwan, outperforming other leading tire brands in Europe, the US, and Japan and received global media recognition. With effective strategies and synergies, we are prepared to take advantage of new opportunities for profitable growth.

➤ 2018 Visions

The group’s MAXXIS Trading Company Limited is responsible to handle domestic distribution of our tire products. At the same time, it builds good communication with the regional distribution channels to assist client service and collect market information. Only when we recognize the importance of “client first” will we be able to increase our reputation and popularity to further promote our sales performance. We believe MAXXIS Trading will surely create a better and brighter future for Cheng Shin.

Looking through 2018, Cheng Shin will promote new products with appealing features in each tire category to complete our product combinations and fill in the gap on the market to raise the company’s sales volume. Moreover, our focus is particularly on the following strategic objectives—driving the tire repair market (RE) with the new vehicles market (OE), and boosting the new vehicles market (OE)

with the tire repair market (RE). In addition to achieving higher sales volume, we uphold the customer value proposal (CVP) in our research and development of quality products. By building up our current brand image and enhancing brand preference, we believe that our sales volume will reach a new high.

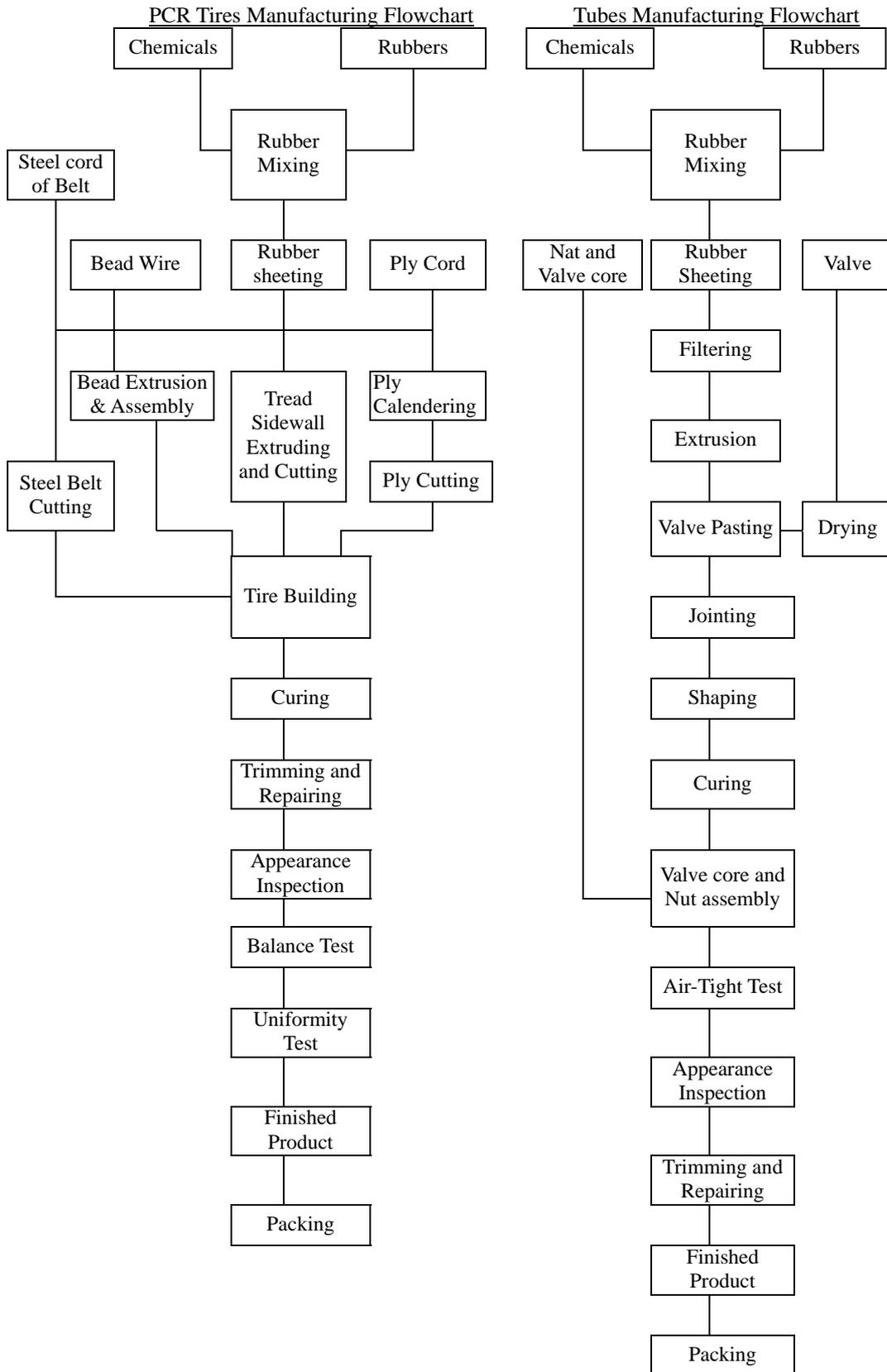
Drinking the water while remembering where it comes from. When pursuing business growth, Cheng Shin continues to fulfill its corporate social responsibility by making contributions to the society. It will uphold the positive energy and the brand's core spirit to make substantial influences and set up a new role model to sustain a beautiful world and begin a new start in 2018.

(2) Key Functions and Manufacturing Process of Core Products

Core Products: tires

Functions: transportation

Manufacturing Process:



(3) **Supply of Key Materials**

Materials	Quantity (ton)	Suppliers
Raw Rubber	289,743	SRI TRANG AGRO IND,PLC, etc.
Synthetic Rubber	235,610	TSRC Corporation, etc.
Tire Cords	53,239	FORMOSA TAFFETA Co., Ltd. , etc.
Carbon Black	256,491	China Synthetic Rubber Corporation, etc.
Steel Wire and Steel Wire Curtain Cloth	132,540	KISWIREARCELORMITTAL LTD, etc.
Chemicals	95,328	Sun Beam Tech Industrial Co., Ltd.,etc
Tire Valves	142,402,000	Rim Master Industrial Co., Ltd., etc.

(4) Customers with 10% or More of Total Procurement/Distribution, Amount and Percentage in Any Given Year within the Most Recent Two Years

1. Suppliers with 10% or More of the Procured Amount

in NT\$1000

Item	2016			2017			As of March 31, 2018					
	Name	Amount	Percentage in Total Net Supply (%)	Relationship with the Company	Name	Amount	Percentage in Total Net Supply (%)	Relationship with the Company	Name	Amount	Percentage in Total Net Supply (%)	Relationship with the Company
1	N/A	-	-	-	N/A	-	-	-	N/A	-	-	-
	Net Supplied Amount	58,228,083	100.00	-	Net Supplied Amount	68,460,834	100.00	-	Net Supplied Amount	15,746,793	100.00	-

2. Customers with 10% or More of the Operating Revenue

in NT\$1000

Item	2016			2017			As of March 31, 2018					
	Name	Amount	Percentage in Total Net Supply (%)	Relationship with the Company	Name	Amount	Percentage in Total Net Supply (%)	Relationship with the Company	Name	Amount	Percentage in Total Net Supply (%)	Relationship with the Company
1	N/A	-	-	-	N/A	-	-	-	N/A	-	-	-
	Net Dstb. Amount	117,387,519	100.00	-	Net Dstb. Amount	112,309,166	100.00	-	Net Dstb. Amount	27,687,137	100.00	-

Note: Customers with 10% of more of the total procurement/distribution, amount and percentage in any given year within the most recent two years and their reasons for change. Codes may be used for parties that may not be disclosed pursuant to a contract term or that are a non-related party individual.

## (5) Production Volume of the Most Recent Two Years

Unit in Thousands; in NT\$1000

Production Volume Major Products	2016			2017		
	Production Capacity	Production Volume	Value of Production	Production Capacity	Production Volume	Value of Production
Radial cover - car	54,039	46,108	36,104,657	54,561	42,442	36,429,572
Radial cover - truck	6,168	4,011	15,998,505	6,292	4,901	20,059,305
Motorcycle cover	68,718	60,848	10,011,823	73,083	41,296	8,909,375
Bicycle cover	121,749	68,937	3,602,947	106,038	92,545	8,101,255
Inner tube	158,256	138,624	3,258,276	164,808	130,228	3,236,035
Other tires	19,158	18,292	9,431,478	23,298	18,675	9,733,218
Other products (Note)	-	-	391,349	-	-	568,314
<b>TOTAL</b>	<b>428,088</b>	<b>336,820</b>	<b>78,799,035</b>	<b>428,080</b>	<b>330,087</b>	<b>87,037,074</b>

Note: Other products: rubber and tire related industrial products

## (6) Sales Value of the Most Recent Two Years

Unit in Thousands; in NT\$1000

Sales Value Major Products	Year					
	2016			2017		
	Domestic Sales		Overseas Sales	Domestic Sales		Overseas Sales
	Quantity	Value	Quantity	Value	Quantity	Value
Radial cover - car	29,389	34,932,548	17,137	19,758,275	27,143	31,052,901
Radial cover - truck	3,424	17,531,607	528	2,824,351	4,127	20,775,777
Motorecycle cover	54,670	12,597,732	6,026	3,425,398	34,379	9,176,304
Bicycle cover	52,712	4,475,348	18,898	2,479,523	65,845	6,101,317
Inner tube	85,536	3,487,106	53,927	2,111,640	76,708	3,127,242
Other tires	10,232	8,907,651	6,785	5,773,025	10,592	7,683,302
Other products (Note)	-	891,812	-	320,023	-	911,615
Sales return and allowances	-	-1,049,006	-	-131,338	-	-1,203,741
Transaction and insurance costs	-	-1,682,694	-	-197,469	-	-1,586,817
Others	-	-	-	931,987	-	-
<b>TOTAL</b>	<b>235,963</b>	<b>80,092,104</b>	<b>103,301</b>	<b>37,295,415</b>	<b>218,794</b>	<b>76,037,900</b>
					<b>106,646</b>	<b>36,271,266</b>

Note: Other products: rubber and tire related industrial products

Others: operating revenue not attributable to tire manufacturing business

5.3 Employee Composition Analysis within the Most Recent Two Years

Year		2016	2017	As of March 31, 2018
Number of Staff	Technician	5,458	5,628	6,172
	Administration	2,676	2,802	2,902
	Factory Workers	21,771	22,403	22,705
	Total	29,905	30,833	31,779
Average Age		32	33	33
Average Seniority		6	6	6
Ph.D.		13	20	18
Masters		645	747	706
Distribution of Academic Degrees	Bachelors (community college)	7,502	7,905	8,365
	High School Diploma	10,618	10,300	10,726
	Others	11,127	11,861	11,964

#### 5.4 Environmental Related Expenditure

The Company is not subject to any material loss or sanction as a result of environmental pollution issues in the latest year and as of the date of the Annual Report.

Any circumstances to which the EU RoHS is applicable: None

#### 5.5 Labor

##### (1) Current Material Labor Related Agreements and Implementation

###### 1.Key Employee Benefits

Our employee compensation policy is fair and does not vary because of gender, race, religion, political view, or marital status. Based on the human resource supply and demand and the regional compensation standard, we set up a basic wage higher than the government's regulation and evaluate an employee's position, education background, work experience and tenure, and professional ability for reference. Our employee compensation standards mainly focus on work ability and performance while the work bonus does not differentiate because of gender.

For the welfare of our employees, we provide benefits in addition to salaries to our employees that are more preferential than what's required under the law. The welfare of the Company can be divided into the following two categories: statutory benefits as provided by the law and Company benefits as provided by the Company.

Statutory benefits: social insurance, public holidays, healthcare, and pension.

Living benefits: meals, uniform, housing, parking, store discounts, and leisure center.

Holiday activities: bonus and/or gifts for Chinese New Year, Dragon Boat Festival and Mid-Autumn Festival, year-end bonus, year-end party allowance, field trip allowance, and family day.

Employee support: medical allowance, condolence payments, wedding/funeral/disability benefits, group insurance and accident insurance, and scholarship for employees' children.

Maternity/paternity leave: we also provide maternity/paternity benefits to our employees pursuant to the law. In 2017, the number of employees applied for maternity/paternity leave is as follows:

Item	Male	Female	Total
Employees applied for maternity/paternity leave in 2017	5	15	20
Employees expected to be on maternity/paternity leave in 2017	5	15	20
Employees returning from maternity/paternity leave in 2017	4	10	14
Rate of returning to work (B/A)	80%	67%	70%

## 2. Employee Education and Training

We are committed to building a continuous and fulfilling learning environment for employee education and training purposes. Under this core value, we adopted “Rules Governing Education and Training” to plan training courses based on professional skills required for each department, and offer developmental opportunities to the entity and individuals by way of internal and external trainings. We also provide general-knowledge, technical and management training classes targeted at different job functions and levels of employees to enhance their professional and management skills. We invite outside experts to give lectures, and train speakers from within the Company as part of the conveyance of important knowledge and know-how of the Company, thereby sustaining our corporate culture and strengthening employee competitiveness.

In 2017, we offered 2,097 classes by job functions and 93 classes by job levels, and 220 classes by projects, with the attendance of 46,292 people for a total of 90,665 hours. The total cost of training was NT\$ 3.04 million.

- New employee training: aimed to provide new employees with an orientation to the Company and corporate culture to help them adapt to the new environment and fit into the culture of the organization.
- Training by job function: professional skills training courses designed to cater to different job functions, such as production management, research and development, and quality assurance, which are aimed to provide employees with a comprehensive training at each stage of their career development, and help them achieve self-realization and reach their potential through work.
- Training by job level: a series of topical courses designed for different job levels to improve employees’ management skills and efficiency.
- Project-based programs: a variety of project-based programs designed to meet the employees’ learning needs in different areas based on the annual training target.
- Personal development: we provide opportunities for our employees to acquire new knowledge by offering financial support for language learning and hosting talks on topics such as coffee and lifestyle, health, labor laws and regulations.

Cheng Shin offers a variety of learning channels and resources. Other than on-the-job training and on-site demonstrations, we also emphasize the integration of theoretical knowledge and practical experiences.

## 3. Retirement Systems

We comply with the requirements of the Labor Standards Act and Labor Pension Act.

- Former pension system: The Company sets aside 2% of the employee’s total salary each month as pension funds and deposit it to the designated account under the name of the Labor Pension Funds Supervisory Committee at the Bank of Taiwan. Before the end of each year, the Company shall assess the balance in the designated account. If the total available amount of the appropriation is less than the amount required for

the payment of pensions to all the employees who are eligible to retire in the following year, calculated according to the above method, the Company will make up the deficiency in one single appropriation before the end of March in the following year. As of December 31, 2017, the amount of pension funds recognized by the Company under the former pension system was NT\$36,813,000.

- New pension system: The new pension system is available to all employees who came onboard as of July 1, 2005. If an employee chooses to be subject to the new pension system, the Company will appropriate a set amount of pension funds into such employee's personal bank account (appropriation by the Company). Alternatively, the employee may appropriate 1-6% as pension funds to his/her personal bank account (appropriation by the employees). As of December 31, 2017, the amount of pension funds recognized by the Company under the new person system was NT\$130,895,000.

4. Employee Satisfaction: The Company conducts employee satisfaction survey regularly. The survey includes the following areas: corporate system and culture, work environment, education and training, salary and benefits. The employee satisfaction survey is one of the many measures we've taken to receive employee feedbacks. We take the results of the survey as a point of reference to improve company policies. The average score on the employee satisfaction survey in 2017 was 75.3, in which we scored the highest on "employee relationships" at 84.6, indicating harmony between our employees.

5. Other Key Understanding: to be mutually agreed by the union and the Company.

- (2) The Company is neither subject to any loss arising from labor disputes in the latest year and as at the date of this Annual Report, nor a party to any material labor dispute since incorporation. We do not expect any loss arising from labor disputes in the future.

5.6 Material Contracts: None

## VI. Financial Highlights and Analysis

6.1 The Condensed Balance Sheet , Consolidated Income Statement over the past five years, names of the Certified Public Accountants and their audit opinions:

- (1) Consolidated condensed balance sheet – International Financial Reporting Standards (IFRS)

Expressed in Thousand New Taiwan Dollars

Years Description		Financial data over the past 5 years					Financial information as of March 31, 2018
		2013	2014	2015	2016	2017	
Current assets		52,160,423	55,176,245	52,347,130	58,153,934	66,663,624	66,540,601
Real estate, plants and equipment		104,394,750	109,430,271	106,476,804	103,156,284	105,007,683	105,771,583
Intangible assets		-	-	-	-	-	-
Other assets		5,673,299	5,263,851	7,134,288	6,854,508	7,412,948	8,066,974
Total assets		162,228,472	169,870,367	165,958,222	168,164,726	179,084,255	180,379,358
Current liabilities	Before distribution	40,480,115	40,585,092	37,390,371	39,786,698	42,078,364	42,053,135
	After distribution	50,204,361	50,309,338	47,114,617	49,510,944	-	-
Non-current liabilities		42,348,869	40,728,250	38,615,267	40,108,640	54,114,588	53,302,376
Total liabilities	Before distribution	82,828,984	81,313,342	76,005,638	79,895,338	96,192,952	95,355,511
	After distribution	92,553,230	91,037,588	85,729,884	89,619,584	-	-
Equity belonging to the parent company proprietor		78,814,105	87,763,394	89,161,137	87,493,251	82,205,292	84,388,669
Share capital		32,414,155	32,414,155	32,414,155	32,414,155	32,414,155	32,414,155
Capital reserve		52,576	52,576	52,576	52,576	52,576	52,576
Retained earnings	Before distribution	45,580,467	51,849,891	54,875,387	58,334,342	54,168,622	55,432,046
	After distribution	35,856,221	42,125,645	45,151,141	48,610,096	-	-
Other equity		766,907	3,446,772	1,819,019	(3,307,822)	(4,430,061)	(3,510,108)
Treasury stocks		-	-	-	-	-	-
Non-controlled equity		585,383	793,631	791,447	776,137	686,011	635,178
Total equity	Before distribution	79,399,488	88,557,025	89,952,584	88,269,388	82,891,303	85,023,847
	After distribution	69,675,242	78,832,779	80,228,338	78,545,142	-	-

Note : Financial information regarding the first quarter of 2018 follows IFRS and has been verified by independent auditors.

(2) Condensed Individual Balance Sheet – International Financial Reporting Standards  
( IFRS)

Expressed in Thousand New Taiwan Dollars

Year		Financial data over the past 5 years				
		2013	2014	2015	2016	2017
Descriptions						
Current assets		13,122,942	15,519,993	14,386,034	17,330,482	19,434,044
Real estate, plants and equipment		17,733,212	17,296,891	16,761,445	16,052,715	15,747,604
Intangible assets		-	-	-	-	-
Other assets		78,422,130	88,671,730	91,303,809	89,435,797	85,302,027
Total assets		109,278,284	121,488,614	122,451,288	122,818,994	120,483,675
Current liabilities	Before distribution	8,867,672	7,831,311	5,490,673	9,408,116	7,778,876
	After distribution	18,591,918	17,555,557	15,214,919	19,132,362	-
Non-current liabilities		21,596,507	25,893,909	27,799,478	25,917,627	30,499,507
Total liabilities	Before distribution	30,464,179	33,725,220	33,290,151	35,325,743	38,278,383
	After distribution	40,188,425	43,449,466	43,014,397	45,049,989	-
Profit and/or loss that belongs to the parent company proprietor		78,814,105	87,763,394	89,161,137	87,493,251	82,205,292
Share capital		32,414,155	32,414,155	32,414,155	32,414,155	32,414,155
Capital reserve		52,576	52,576	52,576	52,576	52,576
Retained earnings	Before distribution	45,580,467	51,849,891	54,875,387	58,334,342	54,168,622
	After distribution	35,856,221	42,125,645	45,151,141	48,610,096	-
Other equity		766,907	3,446,772	1,819,019	(3,307,822)	(4,430,061)
Treasury Stock		-	-	-	-	-
Non-controlled equity		-	-	-	-	-
Total equity	Before distribution	78,814,105	87,763,394	89,161,137	87,493,251	82,205,292
	After distribution	69,089,859	78,039,148	79,436,891	77,769,005	-

Note : Financial information regarding the fourth quarter of 2017 follows IFRS and has been verified by independent auditors.

(3) Condensed Consolidated Income Statement – International Financial Reporting Standards (IFRS)

Expressed in Thousand New Taiwan Dollars

Year Descriptions	Financial data over the past 5 years					Financial information as of March 31, 2018
	2013	2014	2015	2016	2017	
Operating revenues	133,086,543	129,014,062	116,726,293	117,387,519	112,309,166	27,687,137
Gross operating profit	35,327,795	35,900,504	35,557,792	36,289,109	25,678,070	6,564,119
Operating profit and/or loss	22,214,771	21,189,739	18,620,380	18,671,413	8,398,492	2,458,013
Non-operating revenues and expenditures	1,046,270	81,057	(1,144,177)	(776,427)	(16,623)	(530,732)
Net profit before tax	23,261,041	21,270,796	17,476,203	17,894,986	8,381,869	1,927,281
Net profit this term of continuing operation	18,641,919	16,111,617	12,839,214	13,346,481	5,602,025	1,222,466
Loss of the discontinued operation	-	-	-	-	-	-
Net profit this term	18,641,919	16,111,617	12,839,214	13,346,481	5,602,025	1,222,466
Other consolidated profit and/or loss this term (Net amount after tax)	2,159,184	2,770,166	(1,719,409)	(5,305,431)	(1,255,864)	910,078
Net consolidated profit and/or loss this term	20,801,103	18,881,783	11,119,805	8,041,050	4,346,161	21,32,544
Net profit that belongs to the parent company proprietor	18,548,522	16,015,591	12,776,655	13,250,903	5,541,785	1,214,791
Net profit that belongs to non-controlled equity	93,397	96,026	62,559	95,578	60,240	7,675
With the aggregate total of consolidated profit and/or loss belonging to the parent company proprietor	20,762,696	18,673,535	11,121,989	8,056,360	4,436,287	2,183,377
Consolidated profit and/or loss that belongs to non-controlled equity	38,407	208,248	(2,184)	(15,310)	(90,126)	(50,833)
Earnings per share (EPS)	5.72	4.94	3.94	4.09	1.71	0.37

Note : Financial information regarding the first quarter of 2018 follows IFRS and has been verified by independent auditors.

(4) Condensed individual consolidated income statement — International Financial Reporting Standards ( IFRS)

Expressed in Thousand New Taiwan Dollars

Year Descriptions	Financial data over the past 5 years				
	2013	2014	2015	2016	2017
Operating revenues	23,837,290	23,639,942	21,348,480	20,637,507	19,437,442
Gross operating profit	6,089,270	6,989,114	7,284,573	6,748,196	5,038,162
Operating profit and/or loss	2,340,006	3,037,576	3,186,455	2,845,044	1,338,775
Non-operating revenues and expenditures	18,144,414	15,464,226	12,229,973	12,795,689	5,663,820
Net profit before tax	20,484,420	18,501,802	15,416,428	15,640,733	7,002,595
Net profit this term of continuing operation	18,548,522	16,015,591	12,776,655	13,250,903	5,541,785
Loss of the discontinued operation	-	-	-	-	-
Net profit this term	18,548,522	16,015,591	12,776,655	13,250,903	5,541,785
Other consolidated profit and/or loss this term(Net amount after tax)	2,214,174	2,657,944	(1,654,666)	(5,194,543)	(1,105,498)
Net consolidated profit and/or loss this term	20,762,696	18,673,535	11,121,989	8,056,360	4,436,287
Net profit that belongs to the parent company proprietor	18,548,522	16,015,591	12,776,655	13,250,903	5,541,785
Net profit that belongs to non-controlled equity	-	-	-	-	-
With the aggregate total of consolidated profit and/or loss belonging to the parent company proprietor	20,762,696	18,673,535	11,121,989	8,056,360	4,436,287
Consolidated profit and/or loss that belongs to non-controlled equity	-	-	-	-	-
Earnings per share (EPS)	5.72	4.94	3.94	4.09	1.71

Note : Financial information regarding the fourth quarter of 2017 follows IFRS and has been verified by independent auditors.

(5) Names and auditing opinions of CPA in recent five years

CPA	Year	Opinions on the audit
Hung, Shu Hua Wu, Der Feng	2013	Clean opinion after amendment
Hung, Shu Hua Wu, Der Feng	2014	Clean opinion after amendment
Hung, Shu Hua Wu, Der Feng	2015	Clean opinion after amendment
Hung, Shu Hua Wu, Der Feng	2016	Clean opinion after amendment
Hung, Shu Hua Wu, Der Feng	2017	Clean opinion after amendment

## 6.2 Analyses of finance over the past five years

### (1) Analyses on consolidated financial standing – International Financial Reporting Standards (IFRS)

Descriptions		Financial analyses over the past 5 years					Financial information as of March 31, 2018
		2013	2014	2015	2016	2017	
Financial structure (%)	Liabilities to assets ratio	51.06	47.87	45.80	47.51	53.71	52.86
	Long-term working capital to real estate, plants and equipment ratio	111.26	111.66	114.59	119.10	126.04	126.03
Solvency	Current ratio	128.85	135.95	140.00	146.16	158.43	158.23
	Quick ratio	84.34	91.12	101.65	106.58	107.13	107.74
	Interest coverage multiplicity	1,990	1,930	1,869	1,945	735	529
Manageability	Accounts receivable turnover rate (Number of time)	11.85	9.53	8.44	9.37	9.27	8.36
	Average cash collection days	30.79	38.31	43.23	38.94	39.36	43.67
	Inventory turnover rate (Number of time)	5.32	5.61	5.43	5.98	5.23	4.38
	Accounts payable turnover rate (Number of time)	11.46	11.08	10.65	10.33	9.58	9.38
	Average days required for sales	68.66	65.06	67.17	61.08	69.74	83.43
	Real estate, plants and equipment turnover rate (Number of time)	1.32	1.21	1.08	1.12	1.08	1.05
	Aggregate total asset turnover rate (Number of time)	0.85	0.78	0.70	0.70	0.65	0.62
Profitability	Asset return ratio (%)	12.48	10.27	8.12	8.45	3.84	3.48
	Equity return ratio (%)	26.21	19.19	14.38	14.98	6.55	5.82
	Ratio of net profit before tax to paid-in capital (%)	71.76	65.62	53.92	55.21	25.86	23.78
	Net profitability (%)	14.01	12.49	11.00	11.37	4.99	4.42

	Earnings per share (EPS)(NT\$)	5.72	4.94	3.94	4.09	1.71	0.37
Cash flow	Cash flow ratio(%)	69.62	63.08	73.38	68.55	21.15	10.72
	Cash flow adequacy ratio(%)	83.54	78.65	89.95	117.44	101.61	84.13
	Cash reinvestment ratio(%)	13.69	8.20	8.80	8.54	-0.37	1.97
Leverage	Operating Leverage	1.41	1.49	1.61	1.62	2.38	2.22
	Financial Leverage	1.05	1.06	1.05	1.05	1.18	1.21

Note : Financial information regarding the first quarter of 2018 follows IFRS and has been verified by independent auditors.

Analysis if difference reaches 20% :

- (1) Decrease in Interest coverage multiplicity : due to increase in Interest expenditures and decrease in Net profit before income tax.
- (2) Decrease in Asset return ratio : due to decrease in Profit and/or loss after tax.
- (3) Decrease in Equity return ratio : due to decrease in Profit and/or loss after tax.
- (4) Decrease in Ratio of net profit before tax to paid-in capital : due to decrease in Net profit before income tax.
- (5) Decrease in Net profitability : due to decrease in Profit and/or loss after tax.
- (6) Decrease in Earnings per share (EPS) : due to decrease in Profit and/or loss after tax.
- (7) Decrease in Cash flow ratio : due to decrease in Cash flow in operating activities.
- (8) Decrease in Cash reinvestment ratio : due to decrease in Cash flow in operating activities and increase in Gross property, plant, and equipment.
- (9) Increase in Operating Leverage : due to decrease in Operating interests.

(2) Analyses on individual financial standing – International Financial Reporting Standards ( IFRS)

Descriptions		Year	Financial analyses over the past 5 years				
		2013	2014	2015	2016	2017	
Financial structure (%)	Liabilities to assets ratio	27.88	27.76	27.19	28.76	31.77	
	Long-term working capital to real estate, plants and equipment ratio	547.55	635.76	677.91	689.87	702.03	
Solvency	Current ratio	147.99	198.18	262.01	184.21	249.83	
	Quick ratio	119.21	168.74	220.54	161.29	200.17	
	Interest coverage multiplicity	6,178	5,228	4,178	4,456	2,171	
Manageability	Accounts receivable turnover rate(Number of time)	8.39	7.82	7.72	8.07	6.94	
	Average cash collection days	43.51	46.69	47.25	45.26	52.62	
	Inventory turnover rate(Number of time)	7.10	7.64	6.72	7.27	5.55	
	Accounts payable turnover rate(Number of time)	15.63	14.66	12.79	14.19	12.38	
	Average days required for sales	51.38	47.75	54.29	50.23	65.80	
	Real estate, plants and equipment turnover rate(Number of time)	1.34	1.37	1.27	1.29	1.23	
	Aggregate total asset turnover rate(Number of time)	0.22	0.19	0.17	0.17	0.16	
Profitability	Asset return ratio (%)	18.70	14.14	10.73	11.05	4.79	
	Equity return ratio (%)	26.29	19.23	14.44	15.00	6.53	
	Ratio of net profit before tax to paid-in capital (%)	63.20	57.08	47.56	48.25	21.60	
	Net profitability (%)	77.81	67.75	59.85	64.21	28.51	
	Earnings per share (EPS)(NT\$)	5.72	4.94	3.94	4.09	1.71	
Cash flow	Cash flow ratio(%)	90.75	173.36	214.59	105.33	96.82	
	Cash flow adequacy ratio(%)	72.06	77.16	90.18	99.78	95.15	
	Cash reinvestment ratio(%)	3.53	3.16	1.64	0.15	-1.78	
Leverage	Operating Leverage	1.61	1.53	1.51	1.55	2.25	
	Financial Leverage	1.17	1.13	1.13	1.14	1.34	

Note : Financial information regarding the fourth quarter of 2017 follows IFRS and has been verified by independent auditors.

Analysis if difference reaches 20% :

- (1) Increase in Current ratio : due to increase in Inventory.
- (2) Increase in Quick ratio : due to increase in Inventory.
- (3) Decrease in Interest coverage multiplicity : due to decrease in Net profit before income tax.
- (4) Decrease in Inventory turnover rate : due to increase in Inventory.
- (5) Increase in Average days required for sales : due to increase in Inventory.

- (6) Decrease in Asset return ratio : due to decrease in Profit and/or loss after tax.
- (7) Decrease in Equity return ratio : due to decrease in Profit and/or loss after tax.
- (8) Decrease in Ratio of net profit before tax to paid-in capital : due to decrease in Net profit before tax.
- (9) Decrease in Net profitability : due to decrease in Profit and/or loss after tax.
- (10) Decrease in Earnings per share (EPS) : due to decrease in Profit and/or loss after tax.
- (11) Decrease in Cash reinvestment ratio : due to decrease in Cash flow in operating activities and increase in operating fund.
- (12) Increase in Operating Leverage : due to decrease in Operating interests.

Formula to calculate the financial analyses:

#### 1. Financial structure

- (1) Liabilities to assets ratio =  $\text{Total liabilities} / \text{Aggregate total of assets}$ .
- (2) Long-term working capital to real estate, plants and equipment ratio =  $(\text{Aggregate total of equity} + \text{Non-current liabilities}) / \text{Real estate, plants and equipment, net.}$

#### 2. Solvency

- (1) Current ratio =  $\text{Current assets} / \text{Current liabilities}$ .
- (2) Quick ratio =  $(\text{Current assets} - \text{Inventory} - \text{Expenses paid in advance}) / \text{Current liabilities}$ .
- (3) Interest coverage multiplicity =  $\text{Net profit before income tax, interest and expenses} / \text{Interest expenditures this term}$ .

#### 3. Manageability

- (1) Accounts receivable (including notes receivables from operating activities and accounts receivable) turnover rate =  $\text{Net sales} / \text{Average balance of accounts receivable (including notes receivables from operating activities and accounts receivable) in various terms}$ .
- (2) Average cash collection days =  $365 / \text{Accounts receivable turnover rate}$ .
- (3) Inventory turnover rate =  $\text{Sales costs} / \text{Average amount of inventory}$ .
- (4) Accounts payable (including notes payable from operating activities and accounts payable) turnover rate =  $\text{Sales costs} / \text{Average balance of accounts payable (including notes payable from operating activities and accounts payable) of various terms}$ .
- (5) Average days required for sales =  $365 / \text{Inventory turnover rate}$ .
- (6) Real estate, plants and equipment turnover rate =  $\text{Net sales} / \text{Average real estate, plants and equipment, net.}$
- (7) Aggregate total asset turnover rate =  $\text{Net sales} / \text{Average aggregate total of assets}$ .

#### 4. Profitability

- (1) Asset return ratio =  $[\text{Profit and/or loss after tax} + \text{Interest expenses} \times (1 - \text{Tax rate})] / \text{Average aggregate total of assets}$ .
- (2) Equity return ratio =  $\text{Profit and/or loss after tax} / \text{Average aggregate total of equity}$ .
- (3) Net profitability =  $\text{Profit and/or loss after tax} / \text{Net sales}$ .
- (4) Earnings per share (EPS) =  $(\text{Profit and/or loss belonging to parent company proprietor} - \text{Preferred shares dividend}) / \text{Weighted average number of outstanding shares}$ .

#### 5. Cash flow

- (1) Cash flow ratio =  $\text{Cash flow in operating activities} / \text{Current liabilities}$ .

(2) Net cash flow adequacy ratio = Cash flow in operating activities over the past five years / (Capital expenditure + Amount of inventory increase + Cash dividend) over the past five years.

(3) Cash reinvestment ratio = (Cash flow in operating activities – Cash dividend) / (Gross property, plant, and equipment + Long-term investment + Other assets + operating fund).

6. Leverage:

(1) Operating Leverage = (Operating revenues, net – Variable operating costs and expenses) / Operating interests.

(2) Financial Leverage = Operating interests / (Operating interests – Interest expenses).

## Audit Committee's Report

To the 2018 Annual General Meeting of Cheng Shin Rubber Ind. Co., LTD.:

The Board of Directors has prepared and submitted the Company's 2017 Business Report, Financial Statements (including individual and consolidated financial statements) and the proposed profit distribution, of which the Financial Statements have been audited and certified by the independent auditors, Grace Hung and Steven Go, of PricewaterhouseCoopers Taiwan, and an audit report has been issued. The Business Report, Financial Statements and the proposed profit distribution have been reviewed by us, the Audit Committee of the Company. We have not found any inconsistencies with applicable laws in our review of the aforementioned documents. Therefore, we, the Audit Committee, hereby issue this report in compliance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

A handwritten signature in black ink, consisting of three Chinese characters: 許恩得 (Hsu, En-De). The signature is written in a cursive, flowing style.

Hsu, En-De  
Chairman of the Audit Committee

Dated: March 20, 2018

6.4 Consolidated Financial Statements of the latest year duly audited by the Certified Public Accountants

**CHENG SHIN RUBBER IND. CO., LTD. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS  
DECEMBER 31, 2017 AND 2016**

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

REPORT OF INDEPENDENT ACCOUNTANTS

*Cheng Shin Rubber Ind. Co., Ltd. and subsidiaries*  
*Declaration of Consolidated Financial Statements of Affiliated Enterprises*

For the year ended December 31, 2017, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the Company that is required to be included in the consolidated financial statements of affiliates, is the same as the Company required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standards 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,  
XXX

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCRXXXXXXXXXX

To the Board of Directors and Shareholders of Cheng Shin Rubber Ind. Co., Ltd. and subsidiaries

***Opinion***

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

### ***Cut-off on sales revenue***

#### Description

For the accounting policy on revenue recognition, please refer to Note 4(30). For the year ended December 31, 2017, the sales revenue was NT\$112,309,166 thousand.

The Group's main business is manufacturing and sales of various rubber products and tires. The main sources of sales revenue are from the assembly plant and dealers. Sales revenue from the assembly plant are recognised upon shipment of merchandise. In accordance with the contract terms with the assembly plant, as inspections are completed in the assembly plant, the transfer of risk and reward is completed and sales revenue is recognised.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Group's sales revenue cycle, reviewed internal control process and contracts of assembly plant sales in order to assess the effectiveness of managements' control of revenue recognition on assembly plant sales.
2. We tested the Group's sales transactions around the year-end date to check whether assembly plant sales are recorded in the proper period. We also tested whether changes in inventory and cost of goods sold were carried over and recorded in the proper period in order to assess the reasonableness of the sales revenue recognition.
3. We tailored our audit over sales cutoff through accounts receivable testing based on the confirmation process in order to check whether sales revenue and accounts receivable are recorded in the proper period.

### ***Timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.***

#### Description

For the accounting policy on property, plant and equipment, please refer to Note 4(15). For the details of property, plant and equipment, please refer to Note 6(8). As of December 31, 2017, the unfinished construction and equipment under acceptance was NT\$ 11,133,630 thousand.

To maintain market competitiveness, the Group continuously replaces old production lines with new ones and incurs significant amounts of capital expenditures every year. The unfinished construction and uninspected equipment are measured at cost. When the finished construction's inspection report is issued and the uninspected equipment is ready for use, they are reclassified to property, plant and equipment and starts accrual of depreciation expense. The inspection process involves human judgement, thus, the timing of reclassification and accrual of depreciation expense could be inappropriate. Therefore, we indicated that the audit of timing of depreciation recognition after reclassification of unfinished construction and uninspected equipment to property, plant and equipment as one of the key areas of focus for this year.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Group's property, plant and equipment process cycle, reviewed the internal control process and purchase contracts of property, plant and equipment in order to assess the effectiveness of managements' control of timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.
2. We tailored our audit over fixed asset classification to check whether reclassification of assets are accurate and recorded in the proper period.
3. We verified the status of unfinished construction and uninspected equipment and assessed the reasonableness of the recognition of unfinished construction and uninspected equipment.

### ***Changes of ERP system***

#### Description

The ERP system of the Company changed from a self-developed system to the SAP system in 2017. This changed the Company's operating platform and involved changes in information environment of primary activity, thus we listed the change of ERP system as a key audit matter.

### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. Interviewed with management to discuss about the operating process which affected the new system, internal controls and introduction plan to assess the effectivity of the change in the system.
2. Obtained an understanding of control of data transfer when the system changed, and checked the accuracy of account balances at the beginning date.
3. Obtained an understanding and tested the internal controls of primary operation and the system which was relied upon by the financial reporting to assess the effectiveness of internal controls after the data was transferred.

### ***Other matter – Scope of the audit***

We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect total assets of NT\$4,390,772 thousand and NT\$4,699,832 thousand, representing 2% and 3% of the consolidated total assets as of December 31, 2017 and 2016, respectively, and the total liabilities of NT\$1,820,861 thousand and NT\$1,894,862 thousand, both constituting 2% of the consolidated total liabilities as of December 31, 2017 and 2016, respectively, and total operating revenues of NT\$5,198,435 thousand and NT\$5,369,799 thousand, both representing 5% of consolidated total net operating revenue for the years then ended, respectively. Those financial statements and the information disclosed in Note 13 were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

### ***Other matter – Parent company only financial statements***

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Group as at and for the years ended December 31, 2017 and 2016.

### ***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 Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting

Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### ***Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

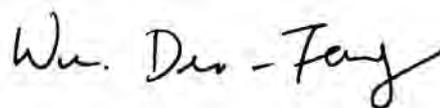
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we

determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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Hung, Shu-Hua



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Wu, Der Feng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 20, 2018

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

**CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 30,923,979	17	\$ 28,893,546	17
1125	Available-for-sale financial assets	6(3)				
	- current		69,188	-	141,404	-
1150	Notes receivable, net	6(4)	2,298,485	1	1,445,339	1
1170	Accounts receivable, net	6(5)	9,852,585	6	10,330,385	6
1180	Accounts receivable - related parties	7	119,288	-	129,733	-
130X	Inventories, net	6(6)	19,184,340	11	13,850,002	9
1410	Prepayments		2,400,926	1	1,900,089	1
1470	Other current assets	8	1,814,833	1	1,463,436	1
11XX	<b>Current Assets</b>		<u>66,663,624</u>	<u>37</u>	<u>58,153,934</u>	<u>35</u>
<b>Non-current assets</b>						
1523	Available-for-sale financial assets	6(3)				
	- noncurrent		58,187	-	58,187	-
1550	Investments accounted for under equity method	6(7)(20)	171,020	-	177,313	-
1600	Property, plant and equipment, net	6(8)	105,007,683	59	103,156,284	61
1760	Investment property, net	6(9)	612,656	-	291,785	-
1840	Deferred income tax assets	6(25)	1,076,959	1	831,631	1
1900	Other non-current assets	6(10) and 8	5,494,126	3	5,495,592	3
15XX	<b>Non-current assets</b>		<u>112,420,631</u>	<u>63</u>	<u>110,010,792</u>	<u>65</u>
1XXX	<b>Total assets</b>		<u>\$ 179,084,255</u>	<u>100</u>	<u>\$ 168,164,726</u>	<u>100</u>

(Continued)

**CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>						
2100	Short-term borrowings	6(11)	\$ 18,508,493	10	\$ 12,656,467	8
2120	Financial liabilities at fair value through profit or loss - current	6(2)	408	-	-	-
2150	Notes payable		822,160	1	483,645	-
2170	Accounts payable		8,511,030	5	8,260,392	5
2200	Other payables	6(12)	7,022,033	4	7,003,144	4
2230	Current income tax liabilities	6(25)	1,277,640	1	1,377,757	1
2300	Other current liabilities	6(13)(14)(15) and 7	5,936,600	3	10,005,293	6
21XX	<b>Current Liabilities</b>		<u>42,078,364</u>	<u>24</u>	<u>39,786,698</u>	<u>24</u>
<b>Non-current liabilities</b>						
2530	Corporate bonds payable	6(14)	16,800,000	9	11,700,000	7
2540	Long-term borrowings	6(15) and 7	32,659,178	18	22,888,990	14
2550	Provisions for liabilities - noncurrent		122,071	-	120,299	-
2570	Deferred income tax liabilities	6(25)	1,348,631	1	1,836,061	1
2600	Other non-current liabilities	6(16)	3,184,708	2	3,563,290	2
25XX	<b>Non-current liabilities</b>		<u>54,114,588</u>	<u>30</u>	<u>40,108,640</u>	<u>24</u>
2XXX	<b>Total Liabilities</b>		<u>96,192,952</u>	<u>54</u>	<u>79,895,338</u>	<u>48</u>
<b>Equity</b>						
<b>Equity attributable to owners of parent</b>						
<b>Share capital</b>						
3110	Share capital - common stock	6(17)	32,414,155	18	32,414,155	19
<b>Capital surplus</b>						
3200	Capital surplus	6(18)	52,576	-	52,576	-
<b>Retained earnings</b>						
3310	Legal reserve	6(19)	14,280,767	8	12,955,677	8
3320	Special reserve		3,307,822	2	2,604,163	2
3350	Unappropriated retained earnings		36,580,033	20	42,774,502	25
<b>Other equity interest</b>						
3400	Other equity interest	6(20)	(4,430,061)	(2)	(3,307,822)	(2)
31XX	<b>Equity attributable to owners of the parent</b>		<u>82,205,292</u>	<u>46</u>	<u>87,493,251</u>	<u>52</u>
36XX	<b>Non-controlling interest</b>		<u>686,011</u>	<u>-</u>	<u>776,137</u>	<u>-</u>
3XXX	<b>Total equity</b>		<u>82,891,303</u>	<u>46</u>	<u>88,269,388</u>	<u>52</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>						
<b>Significant events after the balance sheet date</b>						
3X2X	<b>Total liabilities and equity</b>		<u>\$ 179,084,255</u>	<u>100</u>	<u>\$ 168,164,726</u>	<u>100</u>

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

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars, except earning per share)

Items	Notes	Year ended December 31				
		2017		2016		
		AMOUNT	%	AMOUNT	%	
4000	<b>Sales revenue</b>	7	\$ 112,309,166	100	\$ 117,387,519	100
5000	<b>Operating costs</b>	6(6)	( 86,631,096)	( 77)	( 81,098,410)	( 69)
5900	<b>Net operating margin</b>		25,678,070	23	36,289,109	31
	<b>Operating expenses</b>	7				
6100	Selling expenses		( 8,497,746)	( 8)	( 9,291,874)	( 8)
6200	General and administrative expenses		( 3,690,739)	( 3)	( 3,495,704)	( 3)
6300	Research and development expenses		( 5,091,093)	( 5)	( 4,830,118)	( 4)
6000	<b>Total operating expenses</b>		( 17,279,578)	( 16)	( 17,617,696)	( 15)
6900	<b>Operating profit</b>		8,398,492	7	18,671,413	16
	<b>Non-operating income and expenses</b>					
7010	Other income	6(21)	1,722,315	1	1,168,424	1
7020	Other gains and losses	6(22)	( 454,136)	-	( 1,045,758)	( 1)
7050	Finance costs	6(23)	( 1,292,476)	( 1)	( 924,222)	( 1)
7060	Share of profit of associates and joint ventures accounted for under equity method	6(7)	7,674	-	25,129	-
7000	<b>Total non-operating income and expenses</b>		( 16,623)	-	( 776,427)	( 1)
7900	<b>Profit before income tax</b>		8,381,869	7	17,894,986	15
7950	Income tax expense	6(25)	( 2,779,844)	( 2)	( 4,548,505)	( 4)
8200	<b>Profit for the year</b>		\$ 5,602,025	5	\$ 13,346,481	11

(Continued)

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in thousands of New Taiwan dollars, except earning per share)

Items	Notes	Year ended December 31			
		2017		2016	
		AMOUNT	%	AMOUNT	%
<b>Other comprehensive income</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8311					
8311					
8320					
8349	6(25)				
8310					
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
8361					
8362	6(3)				
8370					
8399	6(25)				
8360					
8300					
8500					
<b>Profit, attributable to:</b>					
8610					
8620					
<b>Comprehensive income(loss), attributable to:</b>					
8710					
8720					
<b>Earnings per share (in dollars)</b>					
9750	6(26)				
9850	6(26)				

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



CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 8,381,869	\$ 17,894,986
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(8)(24)	11,539,729	11,545,063
Depreciation on investment property	6(9)(24)	12,308	727
Amortization expense	6(24)	25,859	5,301
Rental expenses for land use right	6(10)	86,624	91,597
Share of profit of associates and joint ventures accounted for using equity method	6(7)	( 7,674 )	( 25,129 )
Net gain on financial assets or liabilities at fair value through profit or loss	6(22)	( 2,538 )	( 18,829 )
Loss on disposal of property, plant and equipment	6(8)(22)	29,237	151,637
Provision for bad debt expense	6(5)	4,808	-
Interest expense	6(8)(23)	1,292,476	924,222
Interest income	6(21)	( 265,335 )	( 179,998 )
Gain on disposal of investment	6(22)	( 19,828 )	( 475 )
Deferred government grants revenue		( 330,449 )	( 151,920 )
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		( 853,146 )	797,597
Accounts receivable - related parties		10,445	31,756
Accounts receivable		473,193	363,774
Inventories		( 5,228,854 )	( 636,849 )
Prepayments		( 603,439 )	( 774,043 )
Other current assets		( 354,025 )	175,644
Other non-current assets		( 2,778 )	28,010
Changes in operating liabilities			
Notes payable		338,515	276,634
Accounts payable		250,638	1,515,760
Other payables		( 1,183,978 )	426,110
Other current liabilities		( 332,185 )	316,526
Accrued pension liabilities		( 5,671 )	( 162,691 )
Other current liabilities		10,723	-
Cash inflow generated from operations		13,266,524	32,595,410
Interest received		267,855	166,549
Dividends received		15,000	25,152
Interest paid		( 1,239,501 )	( 918,391 )
Income tax paid		( 3,408,985 )	( 4,596,725 )
Net cash flows from operating activities		<u>8,900,893</u>	<u>27,271,995</u>

(Continued)

**CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Net changes in financial liabilities at fair value through profit or loss		\$ 2,946	\$ -
Proceeds from capital reduction of available-for-sale financial assets		-	2,408
Proceed from sale of available-for-sale financial assets		82,818	-
Proceeds from disposal of property, plant and equipment		132,815	61,892
Payment for capitalized interests	6(8)(23)(27)	( 23,870 )	( 43,328 )
Acquisition of property, plant and equipment	6(8)(27)	( 13,923,156 )	( 14,044,132 )
Acquisition of intangible assets		( 22,984 )	( 7,502 )
Decrease (increase) in refundable deposits		35,192	( 52,855 )
Acquisition of land use rights		( 192,971 )	-
Net cash flows used in investing activities		( 13,909,210 )	( 14,083,517 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Increase in short-term loans		30,124,923	17,575,154
Decrease in short-term loans		( 24,097,520 )	( 20,155,605 )
Proceeds from issuing bonds	6(14)	7,000,000	5,000,000
Repayments of bonds	6(14)	( 1,900,000 )	-
Increase in long-term loans		17,491,609	10,525,645
Decrease in long-term loans		( 10,720,689 )	( 8,931,033 )
Decrease in guarantee deposits received		( 9,634 )	( 23,777 )
Increase (decrease) in other payables to related parties	7	169,005	58,188
Decrease in other non-current liabilities		4,531	( 3,019 )
Cash dividends paid	6(19)	( 9,724,246 )	( 9,724,246 )
Net cash flows from (used in) financing activities		8,337,979	( 5,678,693 )
Effect of exchange rate changes on cash and cash equivalents		( 1,299,229 )	( 937,406 )
Net increase in cash and cash equivalents		2,030,433	6,572,379
Cash and cash equivalents at beginning of year	6(1)	28,893,546	22,321,167
Cash and cash equivalents at end of year	6(1)	\$ 30,923,979	\$ 28,893,546

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

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES  
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in thousands of New Taiwan Dollars, unless otherwise indicated)

1. HISTORY AND ORGANIZATION

Cheng Shin Rubber Ind. Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.). The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in: (a) Processing, manufacturing and trading of bicycle tires, electrical vehicle tires, reclaimed rubber, various rubbers and resin and other rubber products; and (b) Manufacturing and trading of various rubber products and relevant rubber machinery. The Company has been listed on the Taiwan Stock Exchange starting December 1987.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 20, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact is detailed as follows:

A. IFRS 9, Financial instruments

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at

fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

- (b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

#### B. IFRS 15, ‘Revenue from contracts with customers’

IFRS 15, ‘Revenue from contracts with customers’ replaces IAS 11 ‘Construction contracts’, IAS 18 ‘Revenue’ and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

#### C. Amendments to IAS 7, ‘Disclosure initiative’

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities

Issuers”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”)

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

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

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

The above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

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

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

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. 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.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
CHENG SHIN RUBBER IND. CO., LTD.	MAXXIS International Co., Ltd.	Holding company	100	100	
CHENG SHIN RUBBER IND. CO., LTD.	CST Trading Ltd.	Holding company	100	100	
CHENG SHIN RUBBER IND. CO., LTD.	MAXXIS Trading Ltd.	Holding company	100	100	
CHENG SHIN RUBBER IND. CO., LTD.	CHENG SHIN RUBBER USA, INC.	Import and export of tires	100	100	
CHENG SHIN RUBBER IND. CO., LTD.	CIAO SHIN CO., LTD.	Investment in various business	-	97	Notes 7
CHENG SHIN RUBBER IND. CO., LTD.	CHENG SHIN RUBBER CANADA, INC.	Import and export of tires	100	100	
CHENG SHIN RUBBER IND. CO., LTD.	MAXXIS Tech Center Europe B.V.	Technical center	100	100	
CHENG SHIN RUBBER IND. CO., LTD.	PT MAXXIS International Indonesia	Production and sales of various types of tires	100	100	
CHENG SHIN RUBBER IND. CO., LTD.	Maxxis Rubber India Private Limited	Production and sales of various types of tires	100	100	
CHENG SHIN RUBBER IND. CO., LTD.	MAXXIS (Taiwan) Trading CO., LTD.	Wholesale and retail of tires	100	100	Notes 6
CHENG SHIN RUBBER IND. CO., LTD.	PT MAXXIS Trading INDONESIA	Large-amount trading of vehicles parts and accessories	100	-	Notes 8
MAXXIS International Co., Ltd.	TIANJIN TAFENG RUBBER IND CO., LTD.	Production and sales of various types of tires	100	100	
MAXXIS International Co., Ltd.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	Production and sales of various types of tires	60	60	Note 3

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
MAXXIS International Co., Ltd.	MAXXIS International (HK) Ltd.	Holding company	100	100	
MAXXIS International (HK) Ltd.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Production and sales of various types of tires	100	100	
MAXXIS International (HK) Ltd.	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	Production and sales of various types of tires	100	100	
MAXXIS International (HK) Ltd.	CHENG SHIN (XIAMEN) INTL AUTOMOBILE CULTURE CENTER CO., LTD.	Research, development, testing and exhibition of tires and automobile accessory products and related products, and management of racing tracks	100	100	
MAXXIS International (HK) Ltd.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Production and sales of various types of tires	25	25	Note 2
CST Trading Ltd.	Cheng Shin International (HK) Ltd.	Holding company	100	100	
Cheng Shin International (HK) Ltd.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Production and sales of various types of tires	100	100	
Cheng Shin International (HK) Ltd.	CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	Production, sales and maintenance of models	50	50	
Cheng Shin International (HK) Ltd.	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	Production and sales of various types of tires	30	30	Note 1
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	Production and sales of various types of tires	70	70	Note 1

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Description
			December 31, 2017	December 31, 2016	
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	KUNSHAN MAXXIS TIRE CO., LTD.	Retail of accessories for rubber tires	100	100	Note 4
MAXXIS Trading Ltd.	MAXXIS Holding (BVI) Co., Ltd.	Holding company	100	100	
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHIN CHOU CHENG SHIN ENTERPRISE CO., LTD.	Retail of accessories for rubber tires	95	95	
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	Production and sales of various types of tires	40	40	Note 3
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN LOGISTIC (XIAMEN) CO., LTD.	International container transportation business	49	49	
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Production and sales of various types of tires	75	75	Note 2
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN (ZHANGZHOU) MECHANICAL & ELECTRICAL ENGINEERING CO., LTD.	Manufacturing and sales of equipment	-	50	Note 5
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	XIAMEN ESTATE CO., LTD.	Construction and trading of employees' housing	100	100	
MAXXIS Holding (BVI) Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Production and sales of various types of tires	100	100	
MAXXIS Holding (BVI) Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Production and sales of various types of tires	100	100	Note 8

Note 1: Cheng Shin International (HK) Ltd. and Cheng Shin Tire & Rubber (China) Co., Ltd. collectively hold 100% equity interest in Cheng Shin Tire & Rubber (Chongqing) Co., Ltd.

Note 2: Maxxis International (HK) Ltd. and Cheng Shin Rubber (Xiamen) Ind., Ltd. collectively hold 100% equity interest in Cheng Shin Rubber (Zhangzhou) Ind. Co., Ltd.

Note 3: Maxxis International Co., Ltd. and Cheng Shin Rubber (Xiamen) Ind., Ltd. collectively hold 100% equity interest in Cheng Shin Petrel Tire (Xiamen) Co., Ltd.

Note 4: In September 2015, the Group established a subsidiary, Kunshan Maxxis Tire Co., Ltd., in China. The registered capital is RMB 5 million and paid-in capital was collected on April 1, 2016.

Note 5: On January 1, 2016, the shareholders during their meeting resolved for the liquidation of the Group's subsidiary, CHENG SHIN (ZHANGZHOU) MECHANICAL & ELECTRICAL ENGINEERING CO., LTD. As of September, 2017, the liquidation was completed.

Note 6: In January 2016, the Group established a subsidiary, MAXXIS (Taiwan) Trading Co., Ltd., which was included in the consolidated financial statements since establishment.

Note 7: On December 21, 2016, the shareholders during their meeting resolved the liquidation of the Group's subsidiary, CIAO SHIN CO., LTD. As of September, 2017, the liquidation was completed.

Note 8: In January 2016, the Group established a subsidiary, MAXXIS (Taiwan) Trading Co., Ltd., which was included in the consolidated financial statements since establishment.

C. Subsidiaries not included in the consolidated financial statements:

None.

D. Adjustments for subsidiaries with different balance sheet dates:

None.

E. Significant restrictions:

None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange

rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

#### B. Translation of foreign operations

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

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

#### (5) Classification of current and non-current items

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

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

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

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

(6) Cash equivalents

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

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

- A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(8) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(9) Receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized

cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

- (a) Significant financial difficulty of the issuer or debtor;
- (b) A breach of contract, such as a default or delinquency in interest or principal payments;
- (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) The disappearance of an active market for that financial asset because of financial difficulties;
- (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
- (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
- (h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be

related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(12) Lease receivables/ leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(13) Inventories

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

(14) Investments accounted for using equity method / associates

A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or

exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

- C. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. When the Group disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

(15) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment

are as follows:

- (a) Buildings : 5 ~ 60 years
- (b) Machinery and equipment : 15 years
- (c) Test equipment : 5 years
- (d) Transportation equipment : 6 years
- (e) Office equipment : 5 years
- (f) Other assets : 3 ~ 5 years

(16) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 5 ~ 55 years.

(17) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 2 to 5 years.

(18) Impairment of non-financial assets

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

(19) Borrowings

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

B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

(20) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as

the effect of discounting is immaterial.

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

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

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

(22) Derecognition of financial liabilities

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

(23) Offsetting financial instruments

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

(24) Financial liabilities and equity instruments

Ordinary corporate bonds issued by the Group are initially recognized at fair value, net of transaction costs incurred. Ordinary corporate bonds are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortized in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

(25) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognized in profit or loss.

(26) Provisions

Provisions (including decommissioning) are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(27) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

C. Employees', directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(28) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate

and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(29) Dividends

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

(30) Revenue recognition

Sales of goods

- A. The Group manufactures and sells tire products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and

discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods should be recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

- B. The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognized. The volume discounts are estimated based on the anticipated annual sales quantities.
- C. The Group has customer loyalty programs where the Group grants loyalty award credits (such as 'points'; the award credits can be used to exchange for free or discounted goods) to customers as part of a sales transaction. The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the initial sale of goods and the award credits. The amount of proceeds allocated to the award credits is measured by reference to the fair value of goods that can be redeemed by using the award credits and the proportion of award credits that are expected to be redeemed by customers. The Group recognizes the deferred portion of the proceeds allocated to the award credits as revenue only when it has fulfilled its obligations in respect of the award credits.

(31) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate. Government grants related to property, plant and equipment are recognized as non-current liabilities and are amortized to profit or loss over the estimated useful lives of the related assets using the straight-line method.

(32) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

## 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF

### ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. There is no critical accounting judgement, estimates and assumptions uncertainty for the year ended December 31, 2017.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and petty cash (revolving funds)	\$ 3,104	\$ 2,101
Checking deposit	1,776,577	2,171,362
Demand deposits	17,646,021	17,717,029
Time deposits	11,498,277	9,003,054
	<u>\$ 30,923,979</u>	<u>\$ 28,893,546</u>
Interest rate range		
Time deposits	<u>0.01%~7.00%</u>	<u>0.60%~5.38%</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has reclassified pledged time deposits to 'other current assets' and 'other non-current assets'. Please refer to Note 8 for details.

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

<u>Items</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current items:		
Financial assets held for trading		
Financial liabilities held for trading		
Forward foreign exchange contracts	<u>\$ 408</u>	<u>\$ -</u>

A. The Group recognized gain (loss) of \$2,358 and (\$288) on financial assets and liabilities held for trading for the years ended December 31, 2017 and 2016, respectively.

B. The non-hedging derivative instruments transaction and contract information are as follows:  
As of December 31, 2016, there were no related transactions.

Types of goods	December 31, 2017	
	Contract amount (Notional principal)	Contract period
Current items:		
Forward foreign exchange contracts (USD exchange to NTD)	<u>USD 6 million</u>	2017.11.23-2018.1.29
Forward exchange contract		

The Group entered into forward foreign exchange contracts to sell (buy) USD to hedge exchange rate risk of import (export) proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting

(3) Available-for-sale financial assets

Items	December 31, 2017		December 31, 2016	
Current items:				
Listed stocks	\$	8,665	\$	71,655
Funds		<u>18,930</u>		<u>18,930</u>
		27,595		90,585
Valuation adjustment		<u>41,593</u>		<u>50,819</u>
	\$	<u>69,188</u>	\$	<u>141,404</u>
Non-current items:				
Unlisted stocks	\$	<u>58,187</u>	\$	<u>58,187</u>

The Group recognized gain (loss) of \$3,041 and (\$10,290) in other comprehensive income for fair value change and reclassified loss of \$12,267 and \$13,720 from equity to profit or loss for the years ended December 31, 2017 and 2016, respectively.

(4) Notes receivable (including related parties), net

	December 31, 2017		December 31, 2016	
Notes receivable	\$	2,307,762	\$	1,454,616
Less: Allowance for bad debts		<u>(9,277)</u>		<u>(9,277)</u>
	\$	<u>2,298,485</u>	\$	<u>1,445,339</u>

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

	December 31, 2017		December 31, 2016	
Dealer	\$	1,523,569	\$	751,054
Vehicle assembly factory		699,426		548,403
Others		<u>84,767</u>		<u>155,159</u>
	\$	<u>2,307,762</u>	\$	<u>1,454,616</u>

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

As of December 31, 2017, and 2016, the Group does not hold any notes receivable that were impaired.

	2017		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1 and December 31	\$ -	\$ 9,277	\$ 9,277
	2016		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1 and December 31	\$ -	\$ 9,277	\$ 9,277

(5) Accounts receivable, net

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 9,870,136	\$ 10,343,329
Less: Allowance for bad debts	17,551	12,944
	<u>\$ 9,887,687</u>	<u>\$ 10,356,273</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Dealer	\$ 3,305,277	\$ 4,213,454
Vehicle assembly factory	4,461,585	4,214,700
Others	283,334	338,464
	<u>\$ 8,050,196</u>	<u>\$ 8,766,618</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 1,297,167	\$ 1,035,698
31 to 90 days	377,313	370,853
91 to 180 days	102,816	148,444
Over 181 days	42,644	21,716
	<u>\$ 1,819,940</u>	<u>\$ 1,576,711</u>

The above ageing analysis was based on past due date.

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

(a) As of December 31, 2017 and 2016, the Group had no accounts receivable that were impaired.

(b) Movements on the Group's provision for impairment of accounts receivable were as follows:

	2017		
	Individual provision	Group provision	Total
At January 1	\$ -	\$ 12,944	\$ 12,944
Provision for impairment	-	4,808	4,808
Effects of foreign exchange	-	(201)	(201)
At December 31	<u>\$ -</u>	<u>\$ 17,551</u>	<u>\$ 17,551</u>
	2016		
	Individual provision	Group provision	Total
At January 1	\$ -	\$ 12,966	\$ 12,966
Effects of foreign exchange	-	(22)	(22)
At December 31	<u>\$ -</u>	<u>\$ 12,944</u>	<u>\$ 12,944</u>

D. The Group holds real estate and certificates of deposit as collateral for accounts receivable.

(6) Inventories, net

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 6,434,449	\$ -	\$ 6,434,449
Work in process	2,852,070	-	2,852,070
Finished goods	6,452,472	(33,555)	6,418,917
Land in progress	820,703	-	820,703
Construction in progress	1,388,861	-	1,388,861
Inventory in transit	1,269,340	-	1,269,340
	<u>\$ 19,217,895</u>	<u>(\$ 33,555)</u>	<u>\$ 19,184,340</u>
	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 4,754,618	\$ -	\$ 4,754,618
Work in process	1,567,454	-	1,567,454
Finished goods	5,234,031	(37,592)	5,196,439
Land in progress	830,052	-	830,052
Construction in progress	615,238	-	615,238
Inventory in transit	886,201	-	886,201
	<u>\$ 13,887,594</u>	<u>(\$ 37,592)</u>	<u>\$ 13,850,002</u>

The cost of inventories recognized as expense for the period:

	2017	2016
Cost of goods sold	\$ 86,801,895	\$ 81,248,547
Loss on inventory retirement	1,067	69
Loss on physical inventory	6,723	19,338
Revenue from sale of scraps	( 171,552)	( 165,391)
Gain on reversal of decline in market value	( 4,037)	( 4,153)
	\$ 86,634,096	\$ 81,098,410

For the years ended December 31, 2017 and 2016, the Group reversed a previous inventory write-down which was accounted for as reduction of cost of goods sold due to sale of scrap or inventories which were previously provided with allowance.

(7) Investments accounted for using equity method

The carrying amount of the Group's interests in all individually immaterial joint ventures and the Group's share of the operating results are summarized below:

As of December 31, 2017 and 2016, the carrying amount of the Group's individually immaterial joint ventures amounted to \$171,020 and \$173,313, respectively.

	2017	2016
Share of profit of associates and joint ventures accounted for using equity method	\$ 7,674	\$ 25,129
Other comprehensive income(loss) - net of tax	907	( 3,772)
Total comprehensive income	\$ 8,581	\$ 21,357

(8) Property, plant and equipment, net

	December 31, 2017					
	Beginning of period	Additions	Disposals	Transfer	Exchange rate differences	End of period
<b>Cost</b>						
Land	\$ 4,563,758	\$ -	\$ -	-	(\$ 3,236)	\$ 4,560,522
Buildings and structures	43,974,977	418,354	( 127)	1,801,881	( 451,164)	45,743,921
Machinery	92,000,594	2,056,189	( 326,643)	4,156,609	( 785,298)	97,101,451
Testing equipment	3,376,518	29,500	( 6,664)	305,866	( 317,299)	3,387,921
Transportation equipment	1,230,488	83,864	( 19,175)	16,902	( 16,268)	1,295,811
Office equipment	658,072	81,645	( 8,116)	126,200	( 10,536)	847,265
Other facilities	24,829,823	2,393,781	( 450,689)	1,194,768	155,150	28,122,833
Unfinished construction and equipment under acceptance	9,590,929	10,048,087	-	( 8,156,942)	( 348,444)	11,133,630
	<u>\$ 180,225,159</u>	<u>\$ 15,111,420</u>	<u>(\$ 811,414)</u>	<u>\$ 554,716</u>	<u>(\$ 1,777,095)</u>	<u>\$ 192,193,354</u>
<b>Accumulated depreciation</b>						
Buildings	(\$ 13,721,288)	(\$ 1,937,501)	\$ -	\$ 116,114	\$ 122,738	(\$ 15,419,937)
Machinery	( 42,652,343)	( 5,793,870)	213,927	-	244,039	( 47,988,247)
Testing equipment	( 2,331,843)	( 312,121)	5,928	-	274,866	( 2,363,170)
Transportation equipment	( 846,860)	( 116,682)	16,353	-	10,207	( 936,982)
Office equipment	( 402,920)	( 95,371)	7,361	-	5,903	( 485,027)
Other facilities	( 17,099,044)	( 3,284,184)	405,793	-	( 296)	( 19,977,731)
	<u>(\$ 77,054,298)</u>	<u>(\$ 11,539,729)</u>	<u>\$ 649,362</u>	<u>\$ 116,114</u>	<u>\$ 657,457</u>	<u>(\$ 87,171,094)</u>
<b>Accumulated impairment</b>						
Machinery	(\$ 12,651)	\$ -	\$ -	-	-	(\$ 12,651)
Other facilities	( 1,926)	-	-	-	-	( 1,926)
	<u>(\$ 14,577)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 14,577)</u>
	<u>\$ 103,156,284</u>					<u>\$ 105,007,683</u>

December 31, 2016

	Beginning of period	Additions	Disposals	Transfer	Exchange rate		
					differences	End of period	
<b>Cost</b>							
Land	\$ 4,547,849	\$ 395	\$ -	\$ 22,976	(\$ 7,462)	\$ 4,563,758	
Buildings and structures	43,820,285	726,682	( 207,458)	2,397,371	( 2,761,903)	43,974,977	
Machinery	93,834,228	914,059	( 985,162)	4,193,565	( 5,956,096)	92,000,594	
Testing equipment	3,457,987	34,796	( 134,677)	180,548	( 162,136)	3,376,518	
Transportation equipment	1,247,921	85,666	( 34,983)	21,019	( 89,135)	1,230,488	
Office equipment	580,037	73,082	( 24,171)	63,606	( 34,482)	658,072	
Other facilities	23,493,044	1,983,021	( 1,053,402)	1,839,097	( 1,431,937)	24,829,823	
Unfinished construction and equipment under acceptance	8,190,036	10,534,954	-	( 8,689,727)	( 444,334)	9,590,929	
	<u>\$ 179,171,387</u>	<u>\$ 14,352,655</u>	<u>(\$ 2,439,853)</u>	<u>\$ 28,455</u>	<u>(\$ 10,887,485)</u>	<u>\$ 180,225,159</u>	
<b>Accumulated depreciation</b>							
Buildings	(\$ 12,677,650)	\$ 1,995,165	\$ 109,249	\$ -	\$ 842,278	(\$ 13,721,288)	
Machinery	( 40,820,160)	( 5,848,223)	917,472	187,913	2,910,655	( 42,652,343)	
Testing equipment	( 2,283,765)	( 291,281)	131,764	-	111,439	( 2,331,843)	
Transportation equipment	( 830,507)	( 112,417)	32,857	-	63,207	( 846,860)	
Office equipment	( 367,399)	( 76,041)	21,711	( 1,586)	20,395	( 402,920)	
Other facilities	( 15,700,525)	( 3,221,936)	1,013,271	( 180,091)	990,237	( 17,099,044)	
	<u>(\$ 72,680,006)</u>	<u>(\$ 11,545,063)</u>	<u>\$ 2,226,324</u>	<u>\$ 6,236</u>	<u>\$ 4,938,211</u>	<u>(\$ 77,054,298)</u>	
<b>Accumulated impairment</b>							
Machinery	(\$ 12,651)	\$ -	\$ -	\$ -	\$ -	(\$ 12,651)	
Other facilities	( 1,926)	-	-	-	-	( 1,926)	
	<u>(\$ 14,577)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$ 14,577)</u>	
	<u>\$ 106,476,804</u>					<u>\$ 103,156,284</u>	

Amount of borrowing costs capitalized as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	2017	2016
Amount capitalized	\$ 23,870	\$ 43,328
Range of the interest rates for capitalization	1.97%~4.99%	1.2%~5.2%

(9) Investment property, net

December 31, 2017					
	Opening net book amount as at January 1	Additions	Transfer	Exhchange rate differences	Closing net book amount as at December 31
Cost					
Land	\$ 336,339	\$ -	\$ -	\$ -	\$ 336,339
Buildings and structures	27,766	-	445,194	5,750	478,710
	<u>\$ 364,105</u>	<u>\$ -</u>	<u>\$ 445,194</u>	<u>\$ 5,750</u>	<u>\$ 815,049</u>
Accumulated depreciation					
Buildings and structures	(\$ 21,282)	(\$ 12,308)	(\$ 116,114)	(\$ 1,651)	(\$ 151,355)
Accumulated impairment					
Land	(\$ 51,038)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(\$ 51,038)
	<u>\$ 291,785</u>				<u>\$ 612,656</u>
December 31, 2016					
	Opening net book amount as at January 1	Additions	Transfer		Closing net book amount as at December 31
Cost					
Land	\$ 359,315	\$ -	(\$ 22,976)		\$ 336,339
Buildings and structures	50,825	-	( 23,059)		27,766
	<u>\$ 410,140</u>	<u>\$ -</u>	<u>(\$ 46,035)</u>		<u>\$ 364,105</u>
Accumulated depreciation					
Buildings and structures	(\$ 30,850)	(\$ 727)	\$ 10,295		(\$ 21,282)
Accumulated impairment					
Land	(\$ 51,038)	<u>\$ -</u>	<u>\$ -</u>		(\$ 51,038)
	<u>\$ 328,252</u>				<u>\$ 291,785</u>

A. Rental income from investment property is shown below:

	2017	2016
Rental income from investment property	\$ 17,667	\$ 8,725

B. The fair value of the investment property held by the Group as at December 31, 2017 and 2016 was \$920,819 and \$529,829, respectively, which were valued by independent appraisers. Valuations were made using the comparison method which is categorized within Level 3 in the

fair value hierarchy.

- C. The Company acquired the land in Shangmei Section, Dacun Township, Changhua County which is farming and pasturable land. The land will be registered under the Company after the classification of the land is changed. Currently, the land is under the name of related party, Mr. /Ms. Chiu. The Company plans to use the land for operational expansion. The Company holds the original ownership certificate of such land and signed a land trust agreement, which requires the nominal holder not to transfer the ownership of the land to others.

(10) Other non-current assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Land-use right	\$ 5,198,693	\$ 5,271,301
Intangible assets	\$ 110,233	\$ 10,824
Others	185,200	213,467
	<u>\$ 5,494,126</u>	<u>\$ 5,495,592</u>

The Group signed a contract of land-use right with a term of 40 to 99 years. All rentals had been paid on the contract date. The Group recognized rental expenses of \$86,624 and \$91,597 for the years ended December 31, 2017 and 2016, respectively.

(11) Short-term borrowings

<u>Type of borrowings</u>	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	<u>\$ 18,508,493</u>	0.70%~4.70%	None
<u>Type of borrowings</u>	<u>December 31, 2016</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	<u>\$ 753,940</u>	0.70%~3.92%	None

The abovementioned credit loan includes the guarantee of endorsement provided by the Group.

(12) Other payables

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Wages and salaries payable	\$ 1,329,008	\$ 1,516,360
Payable on machinery and equipment	2,213,781	1,049,387
Employee bonus payable	482,544	651,385
Compensation due to directors and supervisors	130,202	264,662
Other accrued expenses	1,855,874	1,963,569
Others	1,010,624	1,557,781
	<u>\$ 7,022,033</u>	<u>\$ 7,003,144</u>

(13) Other current liabilities

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Long-term liabilities due within one year	\$ 4,902,300	\$ 8,638,808
Advance receipts	811,749	999,270
Others	222,551	367,215
	<u>\$ 5,936,600</u>	<u>\$ 10,005,293</u>

(14) Bonds payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Bonds payable		
-issued on 2013	\$ 1,900,000	\$ 3,800,000
Bonds payable		
-issued on 2014	4,800,000	4,800,000
Bonds payable		
-issued on 2016	5,000,000	5,000,000
Bonds payable		
-issued on 2017	<u>7,000,000</u>	<u>-</u>
	18,700,000	13,600,000
Less: Current portion	<u>( 1,900,000)</u>	<u>( 1,900,000)</u>
	<u>\$ 16,800,000</u>	<u>\$ 11,700,000</u>

A. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds (“the bonds”). The bond issuance has been approved by the FSC on August 1, 2017 and completed on August 10, 2017. The bonds were fully issued and total issuance amount was \$7 billion with a coupon rate of 1.03%. The issuance period of the bonds is 5 years, which is from August 10, 2017 to August 10, 2022. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

B. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds (“the bonds”). The bond issuance has been approved by the FSC on September 13, 2016 and completed on September 26, 2016. The bonds were fully issued and total issuance amount was \$5 billion with a coupon rate of 0.71%. The issuance period of the bonds is 5 years, which is from September 26, 2016 to September 26, 2021. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

C. In order to meet operating capital requirements, repay debts and improve the financial structure, the Board of Directors of the Company has resolved to issue domestic unsecured bonds (“the bonds”). The bond issuance has been approved by FSC on June 6, 2014 and completed on July 18, 2014. The bonds were fully issued and total issuance amount was \$4.8 billion with a coupon rate of 1.40%. The issuance period of the bonds is 5 years, which is from July 18, 2014 to July 18, 2019. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The corporate bonds will be redeemed in full amount at the maturity date.

D. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds (“the bonds”). The bond issuance has been approved by FSC on May 20, 2013 and completed on August 19, 2013. The bonds were fully issued and total issuance amount was \$3.8 billion with a coupon rate of 1.55%. The issuance period of the bonds was 5 years, which is from August 19, 2013 to August 19, 2018. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

(15) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2017
<u>Installment-repayment</u>				
Unsecured borrowings	Principal is repayable in installment until September, 2024.	0.97% ~ 5.13%	None	\$ 35,435,510
<u>Other borrowings</u>				
Unsecured borrowings	Principal is repayable in November, 2018 at the maturity.	4.75%	None	225,968
				<u>35,661,478</u>
Less: Current portion				( 3,002,300)
				<u>\$ 32,659,178</u>
Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2016
<u>Installment-repayment</u>				
Unsecured borrowings	Principal is repayable in installment until December, 2023.	0.83% ~ 2.89%	None	\$ 29,572,394
<u>Other borrowings</u>				
Unsecured borrowings	Principal is repayable in November, 2018 at the maturity.	4.75%	None	55,404
				<u>29,627,798</u>
Less: Current portion				( 6,738,808)
				<u>\$ 22,888,990</u>

A. According to the borrowing contract, the Group shall calculate the financial ratios based on the audited annual financial statements (non-consolidated and consolidated) and the reviewed semi-annual consolidated financial statements. The financial ratios shall be maintained as follows: at least 100% for current ratio, no more than 200% for debt-to-equity ratio, at least 150% for debt-service coverage ratio. The financial ratios as assessed in the financial statements have met the

abovementioned requirements at December 31, 2017 and 2016.

B. The currencies and carrying amounts (in thousands of New Taiwan dollars) of the Group's long-term borrowings denominated in foreign currencies are as follows:

Currency	December 31, 2017	December 31, 2016
USD	\$ 15,347,956	\$ 14,112,654
RMB	5,651,239	55,404
THB	1,835,200	1,267,000
EUR	-	271,200

(16) Pensions

A. (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years including commissioned managers prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions to cover the deficit by next March.

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	\$ 1,475,833	\$ 1,535,785
Fair value of plan assets	( 721,893)	( 752,649)
Net defined benefit liability	\$ 753,940	\$ 783,136

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	\$ 1,535,785	(\$ 752,649)	\$ 783,136
Current service cost	25,849	-	25,849
Interest expense (income)	<u>21,501</u>	<u>( 10,537)</u>	<u>10,964</u>
	<u>1,583,135</u>	<u>( 763,186)</u>	<u>819,949</u>
Remeasurements:			
Change in financial assumptions	46,083	-	46,083
Experience adjustments	( 68,585)	-	( 68,585)
Return on plan assets (excluding amounts included in interest income or expense)	<u>-</u>	<u>2,698</u>	<u>2,698</u>
	<u>( 22,502)</u>	<u>2,698</u>	<u>( 19,804)</u>
Pension fund contribution	<u>-</u>	<u>( 35,789)</u>	<u>( 35,789)</u>
Paid pension	<u>( 84,800)</u>	<u>74,384</u>	<u>( 10,416)</u>
Balance at December 31	<u>\$ 1,475,833</u>	<u>(\$ 721,893)</u>	<u>\$ 753,940</u>
Year ended December 31, 2016			
Balance at January 1	\$ 1,551,557	(\$ 684,402)	\$ 867,155
Current service cost	27,965	-	27,965
Interest expense (income)	<u>26,376</u>	<u>( 11,634)</u>	<u>14,742</u>
	<u>1,605,898</u>	<u>( 696,036)</u>	<u>909,862</u>
Remeasurements:			
Change in financial assumptions	50,225	-	50,225
Experience adjustments	25,117	-	25,117
Return on plan assets (excluding amounts included in interest income or expense)	<u>-</u>	<u>4,980</u>	<u>4,980</u>
	<u>75,342</u>	<u>4,980</u>	<u>80,322</u>
Pension fund contribution	<u>-</u>	<u>( 148,959)</u>	<u>( 148,959)</u>
Paid pension	<u>( 145,455)</u>	<u>87,366</u>	<u>( 58,089)</u>
Balance at December 31	<u>\$ 1,535,785</u>	<u>(\$ 752,649)</u>	<u>\$ 783,136</u>

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

For the years ended December 31, 2017 and 2016, the actual return on plan assets was \$7,839 and \$6,654, respectively.

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

	Year ended December 31, 2017	Year ended December 31, 2016
Discount rate	1.10%	1.40%
Future salary increases	3.00%	3.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

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

	Discount rate		Future salary increases	
	Increase	Decrease	Increase	Decrease
	0.25%	0.25%	0.25%	0.25%

December 31, 2017

Effect on present value of defined benefit obligation	(\$ 38,553)	\$ 40,106	\$ 35,767	(\$ 34,629)
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December 31, 2016

Effect on present value of defined benefit obligation	(\$ 42,022)	\$ 43,760	\$ 39,325	(\$ 38,033)
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The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

- (f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2017 amounts to \$35,277.
- (g) As of December 31, 2017, the weighted average duration of that retirement plan is 11 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	137,761.00
2-5 years		246,765
Over 6 years		<u>393,035</u>
	\$	<u><u>777,561</u></u>

- B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The pension costs under defined contribution pension plans of the Company and MAXXIS (Taiwan) Trading Co., Ltd for the years ended December 31, 2017 and 2016, were \$131,507 and \$116,182, respectively.
- C. (a) The Company’s mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. The contribution percentage for the years ended December 31, 2017 and 2016 ranged between 14% ~ 20%. Other than the monthly contributions, the Group has no further obligations. The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016, were \$406,906 and \$403,863, respectively.
- (b) The subsidiaries, Cheng Shin Rubber USA, Inc., Cheng Shin Rubber CANADA, Inc. and Maxxis Tech center Europe B.V., have a defined contribution plan in accordance with the local regulations, and contributions to endowment insurance and pension reserve are based on employees’ salaries and wages. Other than the annual contribution, the subsidiaries have no further obligations. The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016, were \$13,401 and \$12,850, respectively.
- (c) Starting from January 2011, the subsidiary, Maxxis International (Thailand) Co., Ltd., has provision for employees’ pensions based on the actuarial reports. As of December 31, 2017 and 2016, the net liabilities recognised in the balance sheets were \$36,482 and \$30,216, respectively. The subsidiaries established a provident fund in accordance with the Provident Fund Act B.E. 2530 (1987) and has been approved by Ministry of Finance. The fund is contributed by Thailand subsidiaries and employees at 3%~7% of their salaries. Pension was paid from pension fund accounts based on the provident fund act when employees withdrew the fund. The pension costs under defined contribution pension plans for the years ended December 31, 2017 and 2016, were \$9,328 and \$12,178, respectively.
- (d) According to Indonesian local government’s regulations “ 2015 PP Nomor 60 ” and “2015 PP Nomor 45”, since March 2016, the Group’s subsidiary, PT MAXXIS International Indonesia and PT. MAXXIS TRADING INDONESIA, contributes monthly an amount equal to 3.7% and 2% of the employees’ monthly salaries and wages to the retirement insurance; contributes monthly an amount equal to 2% and 1% to pension, respectively. For the years ended December 31, 2017 and 2016, the pension expense accrued in accordance to the aforementioned regulation amounted to \$1,818 and \$258, respectively.
- (e) According to Indonesian local government’s regulation “Employees Provident Fund and Miscellaneous Provisions Act, 1952” , since June 2015, the Group’s subsidiary, Maxxis Rubber India Private Ltd., established an employees’ provident fund. Employer and employees each contributed 12% of salaries and wages to the provident fund. For the years ended

December 31, 2017 and 2016, the pension cost accrued in accordance to the aforementioned regulation amounted to \$6,722 and \$600, respectively.

(17) Share capital

As of December 31, 2017, both of the Company's authorized capital and paid-in capital was \$32,414,155, and all proceeds from shares issued have been collected.

(18) Capital surplus

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

(19) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The appropriation of the remaining amount along with the unappropriated earnings shall be proposed by the Board of Directors and resolved by the shareholders. According to the appropriation of earnings proposed by the Board of Directors, at least 10% ~ 80% of the Company's accumulated distributable earnings shall be appropriated as dividends, and cash dividends shall account for at least 10% of the total dividends distributed.

B. Where the Company accrues annual net income, no less than 2% of which shall be appropriated as employees' compensation and no higher than 3% of which shall be appropriated as directors' and supervisors' remuneration after offsetting accumulated deficit. The employees' compensation can be appropriated in the form of share or cash whereas the directors' and supervisors' remuneration can only be appropriated in the form of cash. The appropriations require attendance of over two thirds of Board of Directors members and approval of over the half of attendees. The resolution of Board of Directors shall be reported at the shareholders' meeting. The recipients of aforementioned employees' compensation include eligible employees of subordinate companies who meet the requirements set out by the Board of Directors.

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

D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.

E. The Company has distributed dividends in the amount of \$9,724,246 (\$3 (in dollars) per share) to shareholders for the years ended December 31, 2017 and 2016, respectively. On March 20, 2018, the Board of Directors proposed that total dividends for the distribution of earnings for the year of 2017 was \$5,834,548 thousand at \$1.8 (in dollars) per share.

F. For the information relating to employees' remuneration (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(24).

(20) Other equity items

	2017		
	Currency translation	Available-for-sale investment	Total
At January 1	(\$ 3,358,274)	\$ 50,452	(\$ 3,307,822)
Valuation adjustment – Group	-	( 8,859)	( 8,859)
Currency translation differences:			
– Group	( 1,342,149)	-	( 1,342,149)
– Tax on group	228,166	-	228,166
– Associates	727	-	727
– Tax on associates	( 124)	-	( 124)
At December 31	<u>(\$ 4,471,654)</u>	<u>\$ 41,593</u>	<u>(\$ 4,430,061)</u>
	2016		
	Currency translation	Available-for-sale investment	Total
At January 1	\$ 1,744,319	\$ 74,700	\$ 1,819,019
Valuation adjustment – Group	-	( 10,528)	( 10,528)
Revaluation transfer – Group	-	( 13,720)	( 13,720)
Currency translation differences:			
– Group	( 6,144,405)	-	( 6,144,405)
– Tax on Group	1,044,549	-	1,044,549
– Associates	3,298	-	3,298
– Tax on associates	561	-	561
At December 31	<u>(\$ 3,351,678)</u>	<u>\$ 50,452</u>	<u>(\$ 3,287,506)</u>

(21) Other income

	2017	2016
Interest income	\$ 265,335	\$ 179,998
Grant revenue	1,036,452	603,431
Other income	420,529	384,995
	<u>\$ 1,722,316</u>	<u>\$ 1,168,424</u>

(22) Other gains and losses

	<u>2017</u>	<u>2016</u>
Net currency exchange loss	(\$ 319,583)	(\$ 673,142)
Loss on disposal of property, plant and equipment	( 29,237)	( 151,637)
Gains on disposals of investments	19,828	475
Net gain on financial assets and liabilities at fair value through profit or loss	2,538	18,829
Other expenses	( 127,682)	( 240,283)
	<u>(\$ 454,136)</u>	<u>(\$ 1,045,758)</u>

(23) Finance costs

	<u>2017</u>	<u>2016</u>
Interest expense:		
Bank borrowings	\$ 1,133,826	\$ 798,097
Corporate bonds	171,143	137,933
Provisions-discount	11,377	12,403
Loss on fair value change of financial instruments:		
Interest rate swaps	-	19,117
	<u>1,316,346</u>	<u>967,550</u>
Less: Capitalisation of qualifying assets	( 23,870)	( 43,328)
Finance costs	<u>\$ 1,292,476</u>	<u>\$ 924,222</u>

(24) Expenses by nature

	<u>2017</u>	<u>2016</u>
Employee benefit expense		
Wages and salaries	\$ 11,628,559	\$ 11,627,289
Labour and health insurance fees	683,862	642,772
Pension costs	606,495	588,706
Other personnel expenses	930,406	857,488
	<u>\$ 13,849,322</u>	<u>\$ 13,716,255</u>
Raw materials and supplies used	<u>\$ 62,062,699</u>	<u>\$ 52,847,888</u>
Depreciation charges on property, plant and equipment	<u>\$ 11,539,729</u>	<u>\$ 11,545,063</u>
Depreciation charges on investment property	<u>\$ 12,308</u>	<u>\$ 727</u>
Amortisation charges on intangible assets	<u>\$ 25,859</u>	<u>\$ 5,301</u>

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$145,330 and \$324,446, respectively; while directors' and supervisors' remuneration was accrued at \$118,590 and \$257,124, respectively. The amounts were recognized in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 2% and 1.632% of distributable profit of current year for the year ended December 31, 2017.

For 2016, the employees' compensation of 2016 as resolved at the meeting of Board of Directors amounting to \$324,446 was in agreement with those amounts recognized in the 2016 financial statements. The Board of Directors during its meeting resolved to distribute 1.632% of retained earnings as supervisors' remuneration for the year ended December 31, 2016 while the amounts recognized in the financial statements based on 1.585% of retained earnings was \$257,124 for directors' and supervisors' remuneration. The difference in the directors' and supervisors' remuneration for the year 2016 was \$7,624 thousand. The difference resulted from adjustment of estimated percentage of directors' and supervisors' remuneration which had been adjusted in the profit or loss for 2017. The employees' compensation for 2016 will be distributed in the form of cash. As of December 31, 2017, the employees' compensation for 2016 has not yet been distributed.

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

(25) Income tax

A. Income tax expense

(a) Components of income tax expense:

	2017	2016
Current tax:		
Current tax on profits for the period	\$ 2,939,105	\$ 3,695,576
Additional 10% income tax imposed on unappropriated earnings	143,020	174,832
Prior year income tax underestimation	205,802	329,328
Total current tax	3,287,927	4,199,736
Deferred tax:		
Origination and reversal of temporary differences	( 508,083)	348,769
Income tax expense	\$ 2,779,844	\$ 4,548,505

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

	2017	2016
Currency translation differences	\$ 228,042	\$ 1,045,110
Remeasurement of defined benefit obligations	( 3,367)	13,655
Income tax from other comprehensive income	(\$ 224,675)	\$ 1,058,765

B. Reconciliation between income tax expense and accounting profit

	<u>2017</u>	<u>2016</u>
Tax calculated based on profit before tax and statutory tax rate	\$ 2,543,688	\$ 4,896,631
Effects from items disallowed by tax regulation	81,111	84,250
Temporary difference not recognized as deferred tax liabilities	( 131,911)	( 839,655)
Effect from five-year tax exemption	( 61,866)	( 96,021)
Prior year income tax (over) underestimation	205,802	329,328
Impact of change in the tax rate on temporary difference between current year and the year realized	-	( 860)
10% tax on undistributed surplus earnings	<u>143,020</u>	<u>174,832</u>
Income tax expense	<u>\$ 2,779,844</u>	<u>\$ 4,548,505</u>

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

	2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
– Deferred tax assets:				
Unrealised gain on inter- affiliated accounts	\$ 129,018	\$ 16,823	\$ -	\$ 145,841
Remeasurement of defined benefit obligations	150,097	-	( 3,367)	146,730
Unrealized evaluation losses on financial asset or liabilities	-	69	-	69
Exchange differences on translation of foreign financial statements	166,481	-	228,042	394,523
Deferred government grant revenue	330,778	( 24,279)	-	306,499
Unrealised exchange loss (gain)	-	26,576	-	26,576
Others	<u>55,257</u>	<u>1,464</u>	<u>-</u>	<u>56,721</u>
Subtotal	<u>\$ 831,631</u>	<u>\$ 20,653</u>	<u>\$ 224,675</u>	<u>\$ 1,076,959</u>
– Deferred tax liabilities:				
Gain on foreign long- term investments	(\$ 1,287,141)	\$ 469,382	\$ -	(\$ 817,759)
Adjustment of land value increment tax	( 514,733)	-	-	( 514,733)
Unrealised exchange loss (gain)	( 7,776)	7,776	-	-
Others	<u>( 26,411)</u>	<u>10,272</u>	<u>-</u>	<u>( 16,139)</u>
Subtotal	<u>(\$ 1,836,061)</u>	<u>\$ 487,430</u>	<u>\$ -</u>	<u>(\$ 1,348,631)</u>
Total	<u>(\$ 1,004,430)</u>	<u>\$ 508,083</u>	<u>\$ 224,675</u>	<u>(\$ 271,672)</u>

## 2016

	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Temporary differences:				
— Deferred tax assets:				
Unrealised gain on inter-affiliated accounts	\$ 136,448	(\$ 7,430)	\$ -	\$ 129,018
Remeasurement of defined benefit obligations	136,442	-	13,655	150,097
Unrealized evaluation losses on financial asset or liabilities	1,261	( 1,261)	-	-
Exchange differences on translation of foreign financial statements	-	-	166,481	166,481
Deferred government grant revenue	379,485	( 48,707)	-	330,778
Unrealised exchange loss (gain)	<u>47,489</u>	<u>7,768</u>	<u>-</u>	<u>55,257</u>
Others	<u>\$ 701,125</u>	<u>(\$ 49,630)</u>	<u>\$ 180,136</u>	<u>\$ 831,631</u>
Subtotal				
— Deferred tax liabilities:	(\$ 994,514)	(\$ 292,627)	\$ -	(\$ 1,287,141)
Gain on foreign long-term investments	( 514,733)	-	-	( 514,733)
Adjustment of land value increment tax	( 878,629)	-	878,629	-
Unrealised exchange loss (gain)	( 10,684)	2,908	-	( 7,776)
Others	<u>( 16,991)</u>	<u>( 9,420)</u>	<u>-</u>	<u>( 26,411)</u>
Subtotal	<u>(\$ 2,415,551)</u>	<u>(\$ 299,139)</u>	<u>\$ 878,629</u>	<u>(\$ 1,836,061)</u>
Total	<u>(\$ 1,714,426)</u>	<u>(\$ 348,769)</u>	<u>\$ 1,058,765</u>	<u>(\$ 1,004,430)</u>

- D. (1) The China subsidiary that was consolidated in the financial statements was a productive foreign enterprise and established in People's Republic of China and is eligible for local tax incentives. In line with local tax law, the tax rate and applicable tax rate was 15% and 25%, respectively.
- (2) For the years ended December 31, 2017 and 2016, the Company's subsidiary, Cheng Shin (Thailand) and Cheng Shin (Vietnam) are both eligible to avail of the local tax incentives.
- E. In 2009, the investment plan of the Company to increase capital for expanding its production of rubber products is qualified for "Five-year tax exemption incentive for investment in the establishment or expansion of manufacturing enterprises or related technical services from July 1, 2008 to December 31, 2009". The Company is entitled to income tax exemption for 5

consecutive years starting from 2014 to 2018.

- F. The Company accrued deferred tax liabilities, taking into account operating result, degree of expansion and dividend policy of each overseas subsidiary. Based on the assessment, the amounts of temporary difference unrecognised as deferred tax liabilities as of December 31, 2017 and 2016 were \$41,912,057 thousand and \$43,481,764 thousand, respectively.
- G. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority while the income tax returns through 2014 have not been assessed and approved.
- H. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

Unappropriated retained earnings on December 31, 2016:

	December 31, 2016	
Earnings generated in and before 1997	\$	26,215
Earnings generated in and after 1998		42,748,287
	\$	42,774,502

- I. As of December 31, 2016, the balance of the imputation tax credit account was \$3,370,734 thousand. The creditable tax rate was 9.87% for the year ended December 31, 2016.

(26) Earnings per share

	2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 5,541,785	3,241,416	\$ 1.71
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	5,541,785	3,241,416	
Assumed conversion of all dilutive potential ordinary shares Employees' compensation	-	3,930	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 5,541,785	3,245,346	\$ 1.71

	2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 13,250,903	3,241,416	\$ 4.09
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	13,250,903	3,241,416	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	6,845	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 13,250,903	\$ 3,248,261	\$ 4.08

(27) Supplemental cash flow information

Investing activities with partial cash payments

	2017	2016
Purchase of property, plant and equipment	\$ 15,111,420	\$ 14,352,655
Add: Opening balance of payable on equipment	1,049,387	784,192
Less: Ending balance of payable on equipment	( 2,213,781)	( 1,049,387)
Cash paid during the period	\$ 13,947,026	\$ 14,087,460

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
Toyo Tire & Rubber Co., Ltd.	The investor company whose subsidiaries are accounted for using equity method
Cheng Shin Holland B.V.	Investee accounted for using equity method
New Pacific IND. CD., LTD.	Investee accounted for using equity method
MERIDA INDUSTRY CO., LTD.	The Company's chairperson is the chairperson of the investee
Maxxis (XiaMen) Trading CO., LTD.	The Company's chairperson is the responsible person of the investee

(2) Significant related party transactions

A. Operating revenue

	<u>2017</u>	<u>2016</u>
Sales of goods:		
Associates	\$ <u>558,903</u>	\$ <u>643,667</u>

Prices and collection terms of abovementioned sales are the same with third parties, and the credit terms are between 60~90 days.

B. Receivables from related parties

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable:		
Associates	\$ <u>119,288</u>	\$ <u>129,733</u>

C. Loans to / from related parties: shown as long-term borrowings and other current liabilities

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Payables due to related parties		
-Associates	\$ <u>225,968</u>	\$ <u>55,404</u>

The Group obtained financing from associates and financial institutions for capital needs. Please refer to Note 6(16) for interest rates, borrowing periods and repayment methods.

(3) Key management compensation

	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 283,138	\$ 427,228
Post-employment benefits	<u>3,858</u>	<u>4,472</u>
	\$ <u>286,996</u>	\$ <u>431,700</u>

8. PLEGGED ASSETS

The Group's assets pledged as collateral are as follows:

<u>Pledged asset</u>	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Time deposits (Other current assets)	\$ 15,070	\$ 14,823	Maintenance bond, merchandise delivery guarantee deposit and product liability insurance
Time deposits (Other non-current assets)	-	185	Maintenance bond
	\$ <u>15,070</u>	\$ <u>15,008</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Property, plant and equipment	\$ <u>6,807,845</u>	\$ <u>10,248,341</u>

B. Amount of letter of credit that has been issued but not yet used:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Amount of letter of credit that has been issued but not yet used	\$ 141,240	\$ 156,982

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$128,300 thousand and \$147,158 thousand, respectively, which will be adjusted in the first quarter of 2018.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During the year ended December 31, 2017, the Group's strategy was unchanged from 2016. The gearing ratios at December 31, 2017 and 2016 were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total liabilities	\$ 96,192,952	\$ 79,895,338
Total equity	\$ 82,891,303	\$ 88,269,388
Less : Intangible assets	( 110,233)	( 10,824)
Tangible equity	\$ 82,781,070	\$ 88,258,564
Debt-equity Ratio	112%	91%

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable and related parties, other receivables (shown as other current assets), refundable deposits (shown as other non-current assets), short-term loans, notes payable, accounts payable, other payables, long-term borrowings, bonds payable and guarantee deposits) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3).

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programmer focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.

(b) Risk management is carried out by a central treasury department (Group treasury) under

policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The material financing activities are reviewed by the Board of Directors in accordance with procedures required by relevant regulations and internal control system. During the implementation of financing plans, the Board of Directors is assisted in its oversight role by the internal audit department. Internal audit undertakes both regular and exceptional reviews of risk management controls and procedures, and reports the results to the Board of Directors.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- ii. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.
- iii. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: TWD; other certain subsidiaries' functional currency: RMB, THB, VND, CAD, IDR, EUR, INR and USD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2017

	Foreign currency amount (In thousands)	Exchange rate	Book value (TWD in thousands)	Degree of variation	Sensitivity analysis	
					Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
Financial assets						
Monetary items						
USD:TWD	\$ 391,426	29.760	\$ 11,648,838	1%	\$ 116,488	\$ -
RMB:TWD	116,324	4.565	531,019	1%	5,310	-
EUR:TWD	19,411	35.570	690,449	1%	6,904	-
JPY:TWD	1,611,207	0.264	425,359	1%	4,254	-
GBP:TWD	6,409	40.110	257,065	1%	2,571	-
USD:RMB	125,246	6.519	3,727,225	1%	37,272	-
JPY:RMB	427,796	0.058	113,268	1%	1,133	-
EUR:RMB	16,543	7.792	588,442	1%	5,884	-
GBP:RMB	3,552	8.786	142,464	1%	1,425	-
USD:THB	60,771	32.432	1,809,309	1%	18,093	-
EUR:THB	8,501	38.764	302,511	1%	3,025	-
USD:VND	14,264	25,008.403	424,497	1%	4,245	-
USD:CAD	24,989	1.255	743,417	1%	7,434	-
USD:IDR	6,854	13,345.291	203,975	1%	2,040	-

December 31, 2017

	Foreign currency amount (In thousands)	Exchange rate	Book value (TWD in thousands)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:TWD	\$ 25,745	29.760	\$ 766,171	1%	\$ 7,662	\$ -
USD:RMB	162,212	6.519	4,827,305	1%	48,273	-
USD:THB	97,068	32.432	2,889,964	1%	28,900	-
USD:VND	46,858	2,508.403	1,394,494	1%	13,945	-
EUR:RMB	57,885	7.792	2,058,997	1%	20,590	-
USD:CAD	14,175	1.255	421,703	1%	4,217	-
USD:IDR	176,000	13,345.291	5,237,760	1%	52,378	-
USD:INR	229,800	63.658	6,838,874	1%	68,389	-

December 31, 2016

	Foreign currency amount (In thousands)	Exchange rate	Book value (TWD in thousands)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:TWD	\$ 214,030	32.250	\$ 6,902,468	1%	\$ 69,025	\$ -
RMB:TWD	861,038	4.617	3,975,412	1%	39,754	-
EUR:TWD	19,540	33.900	662,406	1%	6,624	-
THB:TWD	133,109	0.905	120,464	1%	1,205	-
JPY:TWD	759,802	0.276	209,705	1%	2,097	-
GBP:TWD	4,582	39.610	181,493	1%	1,815	-
USD:RMB	97,185	6.985	3,134,191	1%	31,342	-
JPY:RMB	447,703	0.060	124,023	1%	1,240	-
GBP:RMB	2,599	8.579	102,944	1%	1,029	-
EUR:RMB	17,735	7.342	601,181	1%	6,012	-
USD:THB	35,146	35.635	1,133,447	1%	11,334	-
EUR:THB	16,565	37.459	561,560	1%	5,616	-
USD:VND	21,641	25,000.000	697,922	1%	6,979	-
USD:CAD	22,952	1.349	740,153	1%	7,402	-

December 31, 2016

	Foreign currency amount (In thousands)	Exchange rate	Book value (TWD in thousands)	Sensitivity analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	\$ 13,419	32.250	\$ 432,763	1%	\$ 4,328	\$ -
USD:RMB	212,748	6.985	6,861,069	1%	68,611	-
EUR:RMB	34,632	7.342	1,173,956	1%	11,740	-
USD:THB	133,299	35.635	4,298,849	1%	42,988	-
USD:VND	44,393	25,000.000	1,431,674	1%	14,317	-
USD:IDR	36,000	13,271.605	1,161,000	1%	11,610	-
USD:CAD	14,645	1.349	472,270	1%	4,723	-
USD:INR	180,000	67.932	5,804,971	1%	58,050	-

- iv. The exchange gain (loss) including realized and unrealized arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016 amounted to (\$319,583) and (\$673,142), respectively.

#### Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, equity for the years ended December 31, 2017 and 2016 would have increased/decreased by \$1,274 and \$1,996, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

#### Interest rate risk

- i. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates do not expose the Group to fair value interest rate risk. During the years ended December 31, 2017 and 2016, the Group's borrowings at variable rate were denominated in TWD , USD , THB , RMB , EUR and INR.
- ii. Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.
- iii. At December 31, 2017 and 2016, if interest rates on USD , THB , RMB , EUR and INR -denominated borrowings at that date had been 0.1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have been \$41,428 and \$27,956 lower / higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

#### (b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and

analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

- ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The ageing analysis of financial assets that were past due but not impaired is shown on Notes 6(4) and 6(5).
- iv. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial asset in Notes 6(4) and 6(5).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.
- iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

<u>December 31, 2017</u>	<u>Less than 90 days</u>	<u>Between 91 and 180 days</u>	<u>Between 181 and 365 days</u>	<u>Over 1 year</u>	<u>Total</u>
Short-term borrowings	\$10,166,175	\$ 6,925,431	\$ 1,875,338	\$ -	\$18,966,944
Notes and bills payable	9,333,190	-	-	-	9,333,190
Other payables	6,642,583	6,755	211,817	160,878	7,022,033
Guarantee deposits	4,358	274	-	246,979	251,611
Long-term borrowings	877,266	307,323	2,564,269	34,172,374	37,921,232
Bonds payable	-	-	2,104,250	17,208,300	19,312,550

Non-derivative financial liabilities:

<u>December 31, 2016</u>	<u>Less than 90 days</u>	<u>Between 91 and 180 days</u>	<u>Between 181 and 365 days</u>	<u>Over 1 year</u>	<u>Total</u>
Short-term borrowings	\$ 7,507,968	\$ 3,745,464	\$ 1,649,469	\$ -	\$12,902,901
Notes and bills payable	8,653,636	90,401	-	-	8,744,037
Other payables	6,331,174	1,872	335,395	334,703	7,003,144
Guarantee deposits	554	736	-	259,955	261,245
Long-term borrowings	1,390,654	1,255,837	5,337,829	23,054,427	31,038,747
Bonds payable	-	-	2,061,600	11,988,100	14,049,700

Derivative financial liabilities:

<u>December 31, 2017</u>	<u>Less than 90 days</u>	<u>Between 91 and 180 days</u>	<u>Between 181 and 365 days</u>	<u>Over 1 year</u>	<u>Total</u>
Forward exchange contracts	\$ 408	\$ -	\$ -	\$ -	\$ 408

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Group's investment property measured at cost are provided in Note 6(9).

B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

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

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

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

C. The related information on financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2017 and 2016 is as follows:

	<u>December 31, 2017</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>			
<u>Recurring fair value measurements</u>			
Available-for-sale financial assets	<u>\$ 69,188</u>	<u>\$ -</u>	<u>\$ 58,187</u>
<b>Liabilities</b>			
<u>Recurring fair value measurements</u>			
Financial liabilities at fair value through profit or loss			
- Forward exchange contracts	<u>\$ -</u>	<u>\$ 408</u>	<u>\$ -</u>
	<u>December 31, 2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets</b>			
<u>Recurring fair value measurements</u>			
Available-for-sale financial assets	<u>\$ 141,404</u>	<u>\$ -</u>	<u>\$ 58,187</u>

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

- (a) For Level 1, the Group used market quoted prices as their fair values according to the characteristics of instruments. Listed shares and balanced mutual fund use closing price as their fair values.
  - (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes.
  - (c) Level 2: When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.
- F. There was no movement in Level 3 for the years ended December 31, 2017 and 2016.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: please refer to table 1.
- B. Provision of endorsements and guarantees to others: please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: please refer to table 4.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: please refer to table 5.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: please refer to table 6.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: please refer to table 7.
- I. Trading in derivative instruments undertaken during the reporting periods: please refer to Notes 6(2),6(22), 6(23) and 12(2),12(3)
- J. Significant inter-company transactions during the reporting periods: please refer to table 8.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : please refer to table 9.

#### (3) Information on investments in Mainland China

- A. Basic information: please refer to table 10.
- B. Ceiling on investments in Mainland China: please refer to table 10.
- C. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area:  
Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area for the year ended December 31, 2017: please refer to tables 6,7 and 8.

### 14. SEGMENT INFORMATION

#### (1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Chief Operating Decision-Maker that are used to make strategic decisions. Business organization is divided into Cheng Shin (Taiwan), MAXXIS (Taiwan) Trading, Cheng Shin (Xiamen), Cheng Shin (China), Petrel (Xiamen), Cheng Shin (Thailand) and other segments based on the nature of each company. The Group's revenue is mainly from manufacturing and sales of bicycle tires, electrical vehicle tires, reclaimed rubber, etc.

(2) Measurement of segment information

The Group's segment profit (loss) is measured with the profit (loss) before tax, which is used as a basis for the Group in assessing the performance of the operating segments. The accounting policies of the operating segments are in agreement with the significant accounting policies summarized in Note 4.

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

The segment information provided to the Chief Operating Decision-Maker for the reportable segments for the years ended December 31, 2017 and 2016 is as follows:

	2017					Total
	CHENG SHIN RUBBER IND. CO., LTD. and MAXXIS (Taiwan) Trading CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD	CHENG SHIN (CHINA) CO., LTD. and CHENG SHIN PETREL TIRE	CHENG SHIN TIRE & RUBBER (THAILAND) CO., LTD.	MAXXIS INTERNATIONAL (THAILAND) CO., LTD.	
Revenue						
Revenue from external customers	\$ 14,680,582	\$ 17,544,947	\$ 36,150,428	\$ 12,829,247	\$ 22,625,073	\$ 103,830,277
Revenue from inter-segment revenue	<u>9,514,597</u>	<u>1,802,906</u>	<u>626,343</u>	<u>1,519,398</u>	<u>3,999,520</u>	<u>17,462,764</u>
Total segment revenue	<u>\$ 24,195,179</u>	<u>\$ 19,347,853</u>	<u>\$ 36,776,771</u>	<u>\$ 14,348,645</u>	<u>\$ 26,624,593</u>	<u>\$ 121,293,041</u>
Segment income	<u>\$ 2,281,057</u>	<u>\$ 950,831</u>	<u>\$ 2,348,243</u>	<u>(\$ 431,877)</u>	<u>\$ 3,289,001</u>	<u>\$ 8,437,255</u>
Depreciation and Amortisation	<u>\$ 1,616,844</u>	<u>\$ 1,800,483</u>	<u>\$ 3,518,487</u>	<u>\$ 1,724,603</u>	<u>\$ 2,665,063</u>	<u>\$ 11,325,480</u>
Interest income	<u>\$ 154,851</u>	<u>\$ 96,795</u>	<u>\$ 81,747</u>	<u>\$ 1,421</u>	<u>\$ 226,277</u>	<u>\$ 561,091</u>
Finance costs	<u>\$ 338,103</u>	<u>\$ 319,624</u>	<u>\$ 189,406</u>	<u>\$ 191,422</u>	<u>\$ 390,896</u>	<u>\$ 1,429,451</u>
Share of profit of associates and joint ventures accounted for under equity method	<u>\$ 7,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,674</u>

2016

	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD. and CHENG MAXXIS INTERNATIONAL (THAILAND)					All other segments	Total
	CHENG SHIN RUBBER IND. CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD	SHIN PETREL TIRE (XIAMEN) CO., LTD.	MAXXIS INTERNATIONAL (THAILAND) CO., LTD.			
Revenue							
Revenue from external customers	\$ 15,981,145	\$ 19,609,820	\$ 36,177,235	\$ 13,367,721	\$ 23,431,635		\$ 108,567,556
Revenue from inter-segment revenue	<u>6,436,654</u>	<u>915,002</u>	<u>768,397</u>	<u>1,328,964</u>	<u>4,603,437</u>		<u>14,052,454</u>
Total segment revenue	<u>\$ 22,417,799</u>	<u>\$ 20,524,822</u>	<u>\$ 36,945,632</u>	<u>\$ 14,696,685</u>	<u>\$ 28,035,072</u>		<u>\$ 122,620,010</u>
Segment income	<u>\$ 4,089,165</u>	<u>\$ 2,386,924</u>	<u>\$ 4,788,117</u>	<u>\$ 598,273</u>	<u>\$ 5,165,225</u>		<u>\$ 17,027,704</u>
Depreciation and Amortisation	<u>\$ 1,628,204</u>	<u>\$ 1,876,936</u>	<u>\$ 3,720,392</u>	<u>\$ 1,672,036</u>	<u>\$ 2,611,971</u>		<u>\$ 11,509,539</u>
Interest income	<u>\$ 105,040</u>	<u>\$ 35,769</u>	<u>\$ 73,523</u>	<u>\$ 1,911</u>	<u>\$ 241,747</u>		<u>\$ 457,990</u>
Finance costs	<u>\$ 359,095</u>	<u>\$ 208,055</u>	<u>\$ 127,699</u>	<u>\$ 176,926</u>	<u>\$ 330,000</u>		<u>\$ 1,201,775</u>
Share of profit of associates and joint ventures accounted for under equity method	<u>\$ 25,129</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 25,129</u>

(4) Reconciliation for segment income (loss)

A. A reconciliation of income after adjustment and total segment income from continuing operations is provided as follows:

	2017	2016
Adjusted revenue from reportable segments	\$ 121,293,041	\$ 122,620,010
Adjusted revenue from other operating segments	<u>9,174,585</u>	<u>9,588,189</u>
Total operating segments	130,467,626	132,208,199
Elimination of inter-segment revenue	<u>( 18,158,460)</u>	<u>( 14,820,680)</u>
Total consolidated operating revenue	<u>\$ 112,309,167</u>	<u>\$ 117,387,519</u>

B. A reconciliation of adjusted current income before tax and the income before tax from continuing operations is provided as follows:

	2017	2016
Adjusted income from reportable segments before income tax	\$ 8,437,255	\$ 17,027,704
Adjusted (loss) income from other operating segments before income tax	<u>( 120,120)</u>	<u>816,802</u>
Total operating segments	8,317,135	17,844,506
Income from elimination of inter-segment revenue	<u>64,734</u>	<u>50,480</u>
Income from continuing operations before income tax	<u>\$ 8,381,869</u>	<u>\$ 17,894,986</u>

(5) Information on products and services

Revenue from external customers is mainly from processing, manufacturing and trading of bicycle tires, electrical vehicle tires, reclaimed rubber, various rubbers and resin and other rubber products. Details of revenue is as follows:

	<u>2017</u>	<u>2016</u>
Sales revenue	\$ <u>112,309,166</u>	\$ <u>117,387,519</u>

(6) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
Mainland China	\$ 58,597,100	\$ 67,756,611	\$ 61,365,884	\$ 69,787,247
US	8,286,535	454,745	9,627,039	504,927
Taiwan	6,873,376	16,191,635	6,627,102	16,406,274
Others	<u>38,552,155</u>	<u>26,711,474</u>	<u>39,767,494</u>	<u>22,245,213</u>
Total	<u>(\$ 112,309,166)</u>	<u>(\$ 111,114,465)</u>	<u>(\$ 117,387,519)</u>	<u>(\$ 108,943,661)</u>

The Group's geographical revenue is calculated based on the countries where sales incur. Non-current assets refer to property, plant and equipment, investment property, intangible asset (shown as other non-current asset), land use right (shown as other non-current asset) and guarantee deposits paid (shown as other non-current asset), but exclude financial instruments and deferred income tax assets.

(7) Major customer information

None of the revenue from any single customer has exceeded 10% of the revenue in the consolidated statement of comprehensive income for the years ended December 31, 2017 and 2016.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Loans to others

For the year ended December 31, 2017

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 1

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2017	Balance at December 31, 2017	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 3)	Footnote
													Item	Value			
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	\$ 4,576,000	\$ 3,549,240	\$ 3,221,109	3.446%-4.75%	Note 4	\$ -	Operating capital	\$ -	None	\$ -	4,683,900	\$ 7,806,499	Note 6
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Other receivables	Yes	1,830,400	1,824,000	1,573,200	4.75%	Note 4	-	Operating capital	-	None	-	4,683,900	7,806,499	Note 6
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) INTL. AUTOMOBILE CULTURE CENTER CO., LTD.	Other receivables	Yes	366,080	228,000	136,800	6.65%	Note 4	-	Operating capital	-	None	-	4,683,900	7,806,499	Note 6
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (XIAMEN) INTL. AUTOMOBILE CULTURE CENTER CO., LTD.	Other receivables	Yes	1,824,000	1,824,000	1,322,400	4.75%	Note 4	-	Operating capital	-	None	-	7,493,854	1,489,756	Note 6
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	916,800	912,000	232,560	4.75%	Note 4	-	Operating capital	-	None	-	7,493,854	12,486,756	Note 6
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	XIAMEN ESATE CO., LTD.	Other receivables	Yes	48,400	456,000	364,800	4.75%	Note 4	-	Operating capital	-	None	-	7,493,854	12,489,756	Note 6
3	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	3,348,600	2,736,000	1,732,800	4.75%	Note 4	-	Operating capital	-	None	-	13,748,167	222,913,611	Note 6
4	CHENG SHIN LOGISTIC (XIAMEN) IND., LTD.	CHIN CHOU CHENG SHIN ENTERPRISE CO., LTD.	Other receivables	Yes	9,512	9,120	4,560	4.35%	Note 4	-	Operating capital	-	None	-	263,282	438,803	Note 6

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

(1) The Company is '0'.

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

Note 2: Limit on loans granted by CHENG SHIN RUBBER (XIAMEN) IND., LTD., CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD., XIAMEN CHENG SHIN ENTERPRISE CO., LTD. and CHEN SHIN LOGISTIC (XIAMEN) CO., LTD. to a single party is 60% of the net assets of CHENG SHIN RUBBER (XIAMEN) SHIN ENTERPRISE CO., LTD.

Note 3: Limit on loans granted by CHENG SHIN RUBBER (XIAMEN) IND., LTD., CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD., XIAMEN CHENG SHIN ENTERPRISE CO., LTD. and CHEN SHIN LOGISTIC (XIAMEN) CO., LTD. to a single party is 100% of the net assets of CHENG SHIN RUBBER (XIAMEN) SHIN ENTERPRISE CO., LTD.

Note 4: Fill in purpose of loan when nature of loan is for short-term financing. The transaction was completed through the trust loans signed with financial institutions in Mainland China.

Note 5: The amount of ending balance was equal to the limit on loans as approved by the Board of Directors.

Note 6: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others  
For the year ended December 31, 2017

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed	Relationship with the endorser/ guarantor	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2017	Outstanding endorsement/ guarantee amount at December 31, 2017	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of		Footnote
											endorsements/ guarantees by parent company to subsidiary	endorsements/ guarantees by parent company Mainland China	
0	Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Sub- subsidiary	\$ 41,102,646	\$ 8,206,175	\$ 5,258,750	\$ 4,119,780	\$ -	6.40	\$ 57,543,704	Y	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Sub- subsidiary	41,102,646	1,377,860	297,700	107,172	-	0.36	57,543,704	Y	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	Sub- subsidiary	41,102,646	4,384,100	2,381,600	582,996	-	2.90	57,543,704	Y	Y	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Sub- subsidiary	41,102,646	1,409,175	1,339,650	595,400	-	1.63	57,543,704	Y	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	Subsidiary	41,102,646	7,455,122	7,324,826	6,846,553	-	8.91	57,543,704	Y	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS International Indonesia.	Subsidiary	41,102,646	6,025,980	5,983,770	5,239,520	-	7.28	57,543,704	Y	N	Note 2, Note 5
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	XIAMEN ESATE CO., LTD.	Note 3 (1)	18,330,889	2,521,200	2,508,000	720,710	-	10.95	22,913,611	N	Y	Note 4, Note 5

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

(1) The Company is '0'.

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

Note 2: Ceiling on the Company's total endorsements/guarantees to others is 70% of the Company's current net assets.

Limit on the Company's endorsements/guarantees to a single party is 20% of the Company's net assets.

Limit on the Company's endorsements/guarantees to a foreign single affiliate company is 50% of the Company's net assets.

Note 3: Relationship between the endorser/guarantor and the Company is classified into the following two categories:

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

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

Note 4: Limit on the Company's endorsements/guarantees provided to others is 100% of the Company's net assets.

Limit on total endorsements provided to a single party is 80% of the Company's net assets.

Note 5: Outstanding endorsement/guarantee amount and draw down amount are translated at the spot exchange rates prevailing at December 31, 2017.

\$ 57,543,704

\$ 16,441,058

\$ 41,102,646

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

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

December 31, 2017

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer	General ledger account	As of December 31, 2017			Footnote
				Number of shares/units	Book value	Ownership (%)	
Cheng Shin Rubber Ind. Co., Ltd.	Other fund	-	Current available-for-sale financial assets	-	\$ 41,670	-	41,670 Note 2
Cheng Shin Rubber Ind. Co., Ltd.	Other ordinary shares	-	Current available-for-sale financial assets	-	27,518	-	27,518 Note 2
Cheng Shin Rubber Ind. Co., Ltd.	Other ordinary shares	-	Non-current available-for-sale financial assets	-	58,187	-	58,187 Note 2

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

Note 2: Other marketable securities do not exceed 5% of the account.

CHENG SHIN RUBBER IND. CO., LTD.

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

For the year ended December 31, 2017

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2017		Addition (Note 3)	Disposal (Note 3)	Balance as at December 31, 2017		
					Number of shares	Amount			Number of shares	Amount	Gain (loss) on disposal
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	Investments accounted for using equity method	Maxxis Rubber India Private Limited	Subsidiary	369,997,000	\$ 1,695,356	179,998,541	\$ 847,866	-	549,995,541	\$ 2,049,105

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

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

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

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20% of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 5: Gain and loss on investment accounted for using equity method was included in the balance as at December 31, 2017.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

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

For the year ended December 31, 2017

Table 5

Expressed in thousands of NTD  
(Except as otherwise indicated)

If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below:

Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount	Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
CHENG SHIN RUBBER (ZHANGZHOU) IND. CO., LTD.	Plant construction phase II	2017/9/25	\$ 400,925	\$ 151,341	Zun Yi Jian Gong (Group) CO., LTD.	Third party	-	-	-	-	Contracts	Operational needs	None

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate acquired should be appraised pursuant to the regulations.

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

Note 3: Date of the event referred to herein is the date of contract signing date, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counterparty and the monetary amount of the transaction, whichever is earlier.

CHENG SHIN RUBBER IND. CO., LTD.

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

For the year ended December 31, 2017

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction terms compared to third party transactions (Note 1)			Notes/accounts receivable (payable)	Footnote (Note 2)	
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Unit price	Credit term	Balance			Percentage of total notes/accounts receivable (payable)
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Subsidiary	(sales) (\$	3,264,383)	( 16.79)	Collect within 90 days after shipment of goods	Same	Same	\$ 789,260	27.46%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Subsidiary	(sales) (	1,424,286)	( 7.33)	Collect within 90 days after shipment of goods	Same	Same	363,079	12.63%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Sub-subsubsidiary	(sales) (	417,892)	( 2.15)	Collect within 60 days after shipment of goods	Same	Same	80,389	2.80%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Sub-subsubsidiary	(sales) (	165,807)	( 0.85)	Collect within 60 days after shipment of goods	Same	Same	13,421	0.47%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Sub-subsubsidiary	(sales) (	107,567)	( 0.55)	Collect within 60 days after shipment of goods	Same	Same	44,409	1.55%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD	Subsidiary	(sales) (	4,073,337)	( 20.96)	Collect within 30 days	Same	Same	315,091	10.96%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	TIANJIN TAFENG RUBBER IND CO., LTD.	Same ultimate parent	(sales) (	155,729)	( 0.80)	Collect within 60-90 days after shipment of goods	Same	Same	31,624	1.42%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) (	751,134)	( 3.88)	Collect within 60-90 days after shipment of goods	Same	Same	283,284	12.73%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Same ultimate parent	(sales) (	562,327)	( 2.91)	Collect within 60-90 days after shipment of goods	Same	Same	138,767	6.23%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent	(sales) (	119,543)	( 0.62)	Collect within 60-90 days after shipment of goods	Same	Same	29,864	1.34%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Cheng Shin Holland B. V.	Associates	(sales) (	187,957)	( 0.97)	Collect within 60-90 days after shipment of goods	Same	Same	55,437	2.49%	
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Cheng Shin Rubber Ind. Co., Ltd.	Ultimate parent company	(sales) (	145,729)	( 0.75)	Collect within 60 days after shipment of goods	Same	Same	22,174	1.00%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent	(sales) (	1,818,454)	( 43.61)	Collect within 60-90 days after shipment of goods	Same	Same	305,482	43.44%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	Same ultimate parent	(sales) (	548,592)	( 13.16)	Collect within 60-90 days after shipment of goods	Same	Same	104,097	14.80%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	TIANJIN TAFENG RUBBER IND CO., LTD.	Same ultimate parent	(sales) (	107,016)	( 2.57)	Collect within 60-90 days after shipment of goods	Same	Same	20,923	2.98%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Same ultimate parent	(sales) (	135,949)	( 3.26)	Collect within 60-90 days after shipment of goods	Same	Same	19,641	2.79%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) (	219,836)	( 5.27)	Collect within 60-90 days after shipment of goods	Same	Same	40,328	5.73%	Note 4
CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent	(sales) (	372,172)	( 4.48)	Collect within 60-90 days after shipment of goods	Same	Same	43,576	49.08%	Note 4
CHENG SHIN LOGISTIC (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent	(sales) (\$	188,925)	( 37.25)	Collect within 60-90 days after shipment of goods	Same	Same	\$ 17,658	14.35%	Note 4
CHENG SHIN LOGISTIC (XIAMEN) CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	Same ultimate parent	(sales) (	107,465)	( 21.19)	Collect within 60-90 days after shipment of goods	Same	Same	10,161	8.25%	Note 4
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	CHENG SHIN RUBBER CANADA, INC.	Same ultimate parent	(sales) (	362,099)	( 1.59)	Collect within 60-90 days after shipment of goods	Same	Same	47,369	1.10%	Note 4

CHENG SHIN RUBBER IND. CO., LTD.

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more  
For the year ended December 31, 2017

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Notes/accounts receivable (payable)	Footnote (Note 2)	Differences in transaction terms compared to third party transactions (Note 1)	
												Notes/accounts receivable (payable)	Percentage of total notes/accounts receivable (payable)
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) ( 36.27)	( 155,402)	( 36.27)	Collect within 60-90 days after shipment of goods	Same	Same	25,640	39.42%	Note 4		
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	TOYO TIRE & RUBBER CO., LTD	Associates	(sales) ( 27.33)	( 117,093)	( 27.33)	Collect within 60-90 days after shipment of goods	Same	Same	14,843	22.82%	Note 4		
CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) ( 3.85)	( 279,482)	( 3.85)	Collect within 60-90 days after shipment of goods	Same	Same	90,280	19.92%	Note 4		
Cheng Shin Rubber (Vietnam) IND Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Same ultimate parent	(sales) ( 4.02)	( 209,074)	( 4.02)	Collect within 60-90 days after shipment of goods	Same	Same	8,273	1.36%	Note 4		
Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Cheng Shin Rubber Ind. Co., Ltd.	Ultimate parent company	(sales) ( 2.44)	( 127,057)	( 2.44)	Collect within 30 days after shipment of goods	Same	Same	3,806	0.62%	Note 4		
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent	(sales) ( 7.69)	( 1,103,342)	( 7.69)	Collect within 60-90 days after shipment of goods	Same	Same	224,445	14.31%	Note 4		
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) ( 0.87)	( 124,214)	( 0.87)	Collect within 60-90 days after shipment of goods	Same	Same	43,204	2.75%	Note 4		
MAXXIS International (Thailand) Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Same ultimate parent	(sales) ( 1.36)	( 195,469)	( 1.36)	Collect within 60-90 days after shipment of goods	Same	Same	9,593	0.61%	Note 4		

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

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

December 31, 2017

Table 7

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017	Turnover rate	Overdue receivables		Allowance for doubtful accounts
					Amount	Action taken	
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Subsidiary (Note 5)	\$ 789,260	4.87	-	\$ 789,816	-
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Subsidiary (Note 5)	363,319	Note 4	-	214,117	-
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Sub-subsiary (Note 5)	241,985	Note 3	-	110,901	-
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Sub-subsiary (Note 5)	121,109	Note 3	-	64,601	-
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	Subsidiary (Note 5)	316,296	Note 4	-	316,296	-
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent (Note 5)	283,284	3.67	-	168,328	-
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Same ultimate parent (Note 5)	202,105	Note 4	-	60,023	-
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent (Note 5)	307,442	Note 4	-	290,066	-
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD	Same ultimate parent (Note 5)	104,097	4.34	-	104,097	-
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent (Note 5)	224,445	5.60	-	221,575	-

Note 1: Subsequent collection is the amount collected as of March 16, 2018.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company.

Note 3: The amount comprises accounts receivable, commission receivable, endorsement/guarantees receivable, patent royalties receivable, royalties receivable for trademark and other receivables and thus, the turnover rate is not calculated

Note 4: The amount comprises accounts receivable and other receivables and thus, the turnover rate is not calculated.

Note 5: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD.

Significant inter-company transactions during the reporting periods

For the year ended December 31, 2017

Table 8

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount (Note 4)	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	1	Sales	\$ 3,264,383	Collect within 90 days after shipment of goods	2.91%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	1	Accounts receivable	789,260	Collect within 90 days after shipment of goods	0.44%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	1	Sales	1,424,286	Collect within 90 days after shipment of goods	1.27%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	1	Accounts receivable	363,079	Collect within 90 days after shipment of goods	0.20%
0	Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	1	Sales	417,892	Collect within 60 days after shipment of goods	0.37%
0	Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	1	Sales of fixed assets and other assets	439,031	Collect within 90 days after sales of equipment	0.39%
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	1	Sales	4,073,337	The term is 30 days after monthly billing.	3.63%
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	1	Accounts receivable	315,091	The term is 30 days after monthly billing.	0.18%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	751,134	Collect within 60-90 days after shipment of goods	0.67%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Accounts receivable	283,284	Collect within 60-90 days after shipment of goods	0.16%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Sales	562,327	Collect within 60-90 days after shipment of goods	0.50%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	1,732,800	Pay interest quarterly	0.97%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Sales	1,818,454	Collect within 60-90 days after shipment of goods	1.62%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Accounts receivable	305,482	Collect within 60-90 days after shipment of goods	0.17%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	3	Sales	548,592	Collect within 60-90 days after shipment of goods	0.49%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	3,221,109	Pay interest quarterly	1.80%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Other receivables	1,573,200	Pay interest quarterly	0.88%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	219,836	Collect within 60-90 days after shipment of goods	0.20%
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Other receivables	232,560	Pay interest quarterly	0.13%

CHENG SHIN RUBBER IND. CO., LTD.

Significant inter-company transactions during the reporting periods

For the year ended December 31, 2017

Table 8

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount (Note 4)	Transaction terms	
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	1,322,400	Pay interest quarterly	0.74%
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	XIAMEN ESTATE CO., LTD.	3	Other receivables	364,800	Pay interest quarterly	0.20%
4	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Sales	372,172	Collect within 60-90 days after shipment of goods	0.33%
5	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	CHENG SHIN RUBBER CANADA, INC.	3	Sales	362,099	Collect within 60-90 days after shipment of goods	0.32%
6	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	279,482	Collect within 60-90 days after shipment of goods	0.25%
7	MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	3	Sales	1,103,342	Collect within 60-90 days after shipment of goods	0.98%
7	MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	3	Accounts receivable	224,445	Collect within 60-90 days after shipment of goods	0.13%
8	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	3	Sales	209,074	Collect within 60-90 days after shipment of goods	0.19%

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

(1) Parent company is '0'.

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

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

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

Note 4: Transaction amounts account for at least NT\$200 million.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investees

For the year ended December 31, 2017

Table 9  
Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount			Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income(loss) recognised by the Company for the year ended December 31, 2017 (Note 1)	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value				
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International Co., Ltd.	Cayman Islands	Holding company	\$ 912,218	\$ 912,218	35,050,000	100.00	\$ 41,446,874	\$ 1,463,847	\$ 1,463,365	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	CST Trading Ltd.	British Virgin Islands	Holding company	2,103,073	2,103,073	72,900,000	100.00	25,175,906	3,471,894	3,429,262	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS Trading Ltd.	British Virgin Islands	Holding company	7,669,780	7,669,780	237,811,720	100.00	9,890,087	245,429	277,872	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	U.S.A	Import and export of tires	551,820	551,820	1,800,000	100.00	2,433,930	293,212	293,238	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Canada	Import and export of tires	32,950	32,950	1,000,000	100.00	726,855	183,454	183,454	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	CIAO SHIN CO., LTD.	Taiwan	Investment in various business	-	97,000	-	-	-	19,528	18,942	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	NEW PACIFIC INDUSTRY COMPANY LIMITED	Taiwan	Processing and sales of various anti-vibration rubber and hardware	50,001	50,001	5,000,000	50.00	154,347	8,548	4,274	Note 2	
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS Tech Center Europe B.V.	Netherlands	Technical centre	41,260	41,260	1,000,000	100.00	60,157	3,914	3,914	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Holland B.V.	Netherlands	Import and export of tires	23,162	23,162	9,708	30.00	16,673	11,333	3,400	Note 2	
Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS INTERNATIONAL INDONESIA	Indonesia	Production and sales of various types of tires	2,461,355	2,461,355	79,997,000	100.00	17,204,849	432,183	432,183	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	India	Production and sales of various types of tires	2,673,961	1,826,095	549,995,541	100.00	2,049,105	463,182	463,182	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	Taiwan	Wholesale and retail of tires	100,000	100,000	10,000,000	100.00	424,875	305,209	305,209	Subsidiary Note 3	
Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS TRADING INDONESIA	India	Large-amount trading of vehicles parts and accessories	30,235	-	9,990	100.00	29,968	306	306	Subsidiary Note 3	
MAXXIS International Co., Ltd.	MAXXIS International (HK) Ltd.	Hong Kong	Holding company	-	-	226,801,983	100.00	32,430,634	1,597,595	1,597,595	Subsidiary Note 3	
CST Trading Ltd.	Cheng Shin International (HK) Ltd.	Hong Kong	Holding company	-	-	246,767,840	100.00	25,020,939	3,429,110	3,429,111	Subsidiary Note 3	

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investees

For the year ended December 31, 2017

Table 9  
Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017		Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2017	Investment income(loss) recognised by the Company for the year ended December 31, 2017 (Note 1)	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	2017 (Note 1)					
MAXXIS Trading Ltd.	MAXXIS Holdings (BVI) Co., Ltd.	British Virgin Islands	Import and export of tires	7,669,780	7,669,780	237,811,720	100.00	10,345,830	244,596	244,596	Sub-subsiary Note 3	
MAXXIS Holdings (BVI) Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Thailand	Production and sales of truck and automobile tires	5,724,372	5,724,372	65,000,000	100.00	7,772,878	(431,892)	(402,455)	Sub-subsiary Note 3	
MAXXIS Holdings (BVI) Co., Ltd.	Cheng Shin Rubber (Vietnam) Co., Ltd.	Vietnam	Production and sales of various types of tires	1,945,408	1,945,408	62,000,000	100.00	2,569,911	676,790	679,796	Sub-subsiary Note 3	

Note 1: Including investment income (loss) used to offset against sidestream and upstream transactions.

Note 2: Investee companies are accounted for under the equity method.

Note 3: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2017

Table 10

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted from Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China for the year ended December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	\$ 5,208,000	2	\$ 910,834	\$ -	\$ 910,834	\$ 1,064,405	100.00	\$ 1,060,584	\$ 22,913,611	\$ 16,957,236	(Note 2, 3, 5, 6, 7)
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	6,696,000	2	2,385,506	-	2,385,506	2,925,218	100.00	2,955,143	22,996,993	17,466,059	(Note 2, 4, 6, 8)
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	Plastic machinery, molds and its accessory products	252,960	2	68,602	-	68,602	84,640	50.00	42,320	347,061	368,346	(Note 6, 8)
CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	2,976,000	2	-	-	-	1,504,767	100.00	1,497,916	5,791,734	753,758	(Note 2, 4, 6, 8)
KUNSHAN MAXXIS TIRE CO., LTD	Retail of accessories for rubber tires	22,825	2	-	-	- ( 472)	-	100.00	( 472)	22,087	-	(Note 6, 8)
TIANJIJIN TAFENG RUBBER IND CO., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	535,680	2	-	-	- ( 213,203)	-	100.00	( 21,203)	1,599,675	757,407	(Note 6, 7)
CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	A. Radial tire and other various tire products B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	3,868,800	2	-	-	-	145,219	100.00	145,219	12,501,351	3,597,249	(Note 2, 3, 6, 7)

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2017

Table 10

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China		Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
						for the year ended December 31, 2017	December 31, 2017						
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	A. Radial tire and other various tire products B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	\$ 1,339,200	2	\$ -	\$ -	\$ -	\$ 536,748	100.00	\$ 541,490	\$ 7,806,499	\$ 4,707,620	(Note 2, 6, 7)	
CHENG SHIN (XIAMEN) INTL AUTOMOBILE CULTURE CENTER CO., LTD	A. Research, development and testing of tires and automobiles accessory products and display of related products B. Management of racing tracks	595,200	2	-	-	( 76,160)	76,160	100.00	( 76,160)	390,409	-	(Note 6)	
CHIN CHOU CHENG SHIN ENTERPRISE CO., LTD.	Distribution of rubber and components of tires	159,775	2	-	-	( 11,332)	11,332	95.00	( 10,765)	138,759	-	(Note 6, 7)	
CHENG SHIN LOGISTIC (XIAMEN) CO., LTD.	International container transportation business	65,790	2	-	-	-	35,099	49.00	17,199	215,013	-	(Note 6, 7)	
CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	A. Tires and tubes B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	4,386,150	2	-	-	-	288,831	100.00	288,831	5,278,807	452,779	(Note 5, 6, 7)	

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2017

Table 10

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Investment method (Note 1)	Paid-in capital \$	1,506,450	2	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Accumulated amount of remittance from Taiwan to Mainland China for the year ended December 31, 2017	Amount remitted from Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Remitted to Mainland China to Taiwan	-\$	-\$	-\$	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	100.00	(\$	32,055)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	32,055)	Book value of investments in Mainland China as of December 31, 2017	\$	1,451,266	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	-	-	Footnote (Note 6, 7)
XIAMEN ESATE CO., LTD.	Construction and trading of employees' housing		\$	1,506,450	2	\$	-	\$	-	\$	-	(\$	32,055)	100.00		(\$	32,055)	32,055)	\$	1,451,266	\$	-	-	-	(Note 6, 7)	

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

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

Note 2: Including investment income (loss) used to offset against sidestream and upstream transactions.

Note 3: The Company and Cheng Shin Rubber (Xiamen) Ind., Ltd. directly and indirectly holds 60% and 40% of the share ownership in Cheng Shin Petrel Tire (Xiamen) Co., Ltd., respectively.

Note 4: The Company and Cheng Shin Tire & Rubber (China) Co., Ltd. directly and indirectly holds 30% and 70% of share ownership in Cheng Shin Tire & Rubber (Chongqing) Co., Ltd., respectively.

Note 5: Cheng Shin Rubber (Xiamen) Ind., Ltd. and MAXXIS International (HK) Ltd. directly and indirectly holds 75% and 25% of share ownership in Cheng Shin Rubber (Zhangzhou) Ind Co., Ltd, respectively.

Note 6: Paid-in capital was converted at the exchange rate of NTD 29.76: USD 1 and NTD 4.565: RMB 1 prevailing on December 31, 2017.

Note 7: Investment income (loss) was recognised based on the financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

Note 8: Investment income (loss) was recognised based on the financial statements that are audited and attested by R.O.C. parent company's CPA.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Ceiling on investments in Mainland China

For the year ended December 31, 2017

Table 9

Expressed in thousands of NTD  
(Except as otherwise indicated)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 (Note 1)		Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 1)		Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 2)	
Cheng Shin Rubber Ind. Co., Ltd.	\$		\$	3,657,504	\$	20,025,504

Note 1: Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 was USD\$122,900 thousand and the total investment amount approved by the Investment Commission, MOEA, was USD\$672,900 thousand.

Note 2: According to 'Regulations Governing the Permission of Investment or Technical Cooperation in Mainland Area', the Company acquired the operations headquarters certification issued by the Industrial Development Bureau, Ministry of Economic Affairs, R.O.C. and thus, the investments amount in Mainland China is unlimited.

6.5 Individual Consolidated Financial Statements Duly Audited By The Certified Public Accountants In Recent Years

**CHENG SHIN RUBBER IND. CO., LTD.**  
**PARENT COMPANY ONLY FINANCIAL**  
**STATEMENTS AND REPORT OF INDEPENDENT**  
**ACCOUNTANTS**  
**DECEMBER 31, 2017 AND 2016**

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

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of CHENG SHIN RUBBER IND. CO., LTD.

### ***Opinion***

We have audited the accompanying balance sheets of CHENG SHIN RUBBER IND. CO., LTD. as at December 31, 2017 and 2016, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CHENG SHIN RUBBER IND. CO., LTD. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers”.

### ***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

### ***Cut-off on sales revenue***

#### Description

For the accounting policy on revenue recognition, please refer to Note 4(29). For the year ended December 31, 2017, the sales revenue was NT\$19,437,442 thousand. The operating income for the consolidated financial statements amounted to NT\$112,309,166 thousand.

The Company's main business is manufacturing and sales of various rubber products and tires. The main sources of sales revenue are from the assembly plant and dealers. Sales revenue from the assembly plant are recognised upon shipment of merchandise. In accordance with the contract terms with the assembly plant, as inspections are completed in the assembly plant, the transfer of risk and reward is completed and sales revenue is recognised. The sales revenue recognition process involves many manual controls and adjustments are likely to occur. As a result, the timing of sales revenue recognition could be inappropriate. Therefore, we indicated that the audit of timing of sales revenue recognition as one of the key areas of focus for this year.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Company's sales revenue cycle, reviewed internal control process and contracts of assembly plant sales in order to assess the effectiveness of managements' control of revenue recognition on assembly plant sales.
2. We tested the Company's sales transactions around the year-end date to check whether assembly plant sales are recorded in the proper period. We also tested whether changes in inventory and cost of goods sold were carried over and recorded in the proper period in order to assess the reasonableness of the sales revenue recognition.
3. We tailored our audit over sales cutoff through accounts receivable testing based on the confirmation process in order to check whether sales revenue and accounts receivable are recorded in the proper period.

### ***Timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.***

#### Description

For the accounting policy on property, plant and equipment, please refer to Note 4(14). For the details of property, plant and equipment, please refer to Note 6(7). As of December 31, 2017, the unfinished construction and equipment under acceptance was NT\$829,999 thousand. Unfinished construction and

uninspected equipment amounted to NT\$11,133,630 thousand.

To maintain market competitiveness, the Company continuously replaces old production lines with new ones and incurs significant amounts of capital expenditures every year. The unfinished construction and uninspected equipment are measured at cost. When the finished construction's inspection report is issued and the uninspected equipment is ready for use, they are reclassified to property, plant and equipment and starts accrual of depreciation expense. The inspection process involves human judgement, thus, the timing of reclassification and accrual of depreciation expense could be inappropriate. Therefore, we indicated that the audit of timing of depreciation recognition after reclassification of unfinished construction and uninspected equipment to property, plant and equipment as one of the key areas of focus for this year.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. We obtained an understanding of the Company's property, plant and equipment process cycle, reviewed the internal control process and purchase contracts of property, plant and equipment in order to assess the effectiveness of managements' control of timing of reclassification of unfinished construction and uninspected equipment to property, plant and equipment.
2. We tailored our audit over fixed asset classification to check whether reclassification of assets are accurate and recorded in the proper period.
3. We verified the status of unfinished construction and uninspected equipment and assessed the reasonableness of the recognition of unfinished construction and uninspected equipment.

### ***Changes of ERP system***

#### Description

The ERP system of the Company changed from a self-developed system to the SAP system in 2017. This changed the Company's operating platform and involved changes in information environment of primary activity, thus we listed the change of ERP system as a key audit matter.

#### How our audit addressed the matter

The procedures that we have conducted in response to the above key audit matter are summarized as follows:

1. Interviewed with management to discuss about the operating process which affected the new system,

internal controls and introduction plan to assess the effectivity of the change in the system.

2. Obtained an understanding of control of data transfer when the system changed, and checked the accuracy of account balances at the beginning date.
3. Obtained an understanding and tested the internal controls of primary operation and the system which was relied upon by the financial reporting to assess the effectiveness of internal controls after the data was transferred.

#### ***Other matter – Scope of the audit***

As described in Note 6(6), we did not audit the financial statements of certain investments accounted for using equity method and related amounts disclosed in Note 13. The balances of investments accounted for using equity method were NT\$2,569,911 thousand and NT\$2,804,969 thousand, both representing 2% of the total assets as of December 31, 2017 and 2016, respectively; and the share of profit of subsidiaries, associates and joint ventures accounted for using equity method were NT\$679,796 thousand and NT\$1,043,489 thousand, representing 14% and 13% of the total comprehensive income for the years then ended, respectively. These financial statements and the information disclosed in Note 13 were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, is based solely on the audit reports of the other independent accountants.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 audit committee, are responsible for overseeing the Company's financial reporting process.

### ***Auditor's responsibilities for the audit of the financial statements***

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to

cease to continue as a going concern.

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

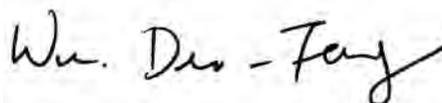
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Hung, Shu-Hua



Wu, Der Feng



For and on behalf of PricewaterhouseCoopers, Taiwan

March 20, 2018

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

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

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY BALANCE SHEETS  
DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 12,002,673	10	\$ 11,754,387	10
1125	Available-for-sale financial assets	6(2)				
	- current		69,188	-	66,147	-
1150	Notes receivable, net	6(3) and 7	23,503	-	22,314	-
1170	Accounts receivable, net	6(4)	1,181,128	1	1,369,219	1
1180	Accounts receivable - related parties, net	7	1,648,216	1	1,318,036	1
130X	Inventories, net	6(5)	3,446,903	3	1,717,092	1
1410	Prepayments		416,157	-	438,764	-
1470	Other current assets	7 and 8	646,276	1	644,523	1
11XX	<b>Total current assets</b>		<u>19,434,044</u>	<u>16</u>	<u>17,330,482</u>	<u>14</u>
<b>Non-current assets</b>						
1523	Available-for-sale financial assets	6(2)				
	non - current		58,187	-	58,187	-
1550	Investments accounted for using equity method	6(6)	84,129,266	70	88,625,721	72
1600	Property, plant and equipment, net	6(7)(26)	15,747,604	13	16,052,715	13
1760	Investment property, net	6(8)	291,173	-	291,785	-
1780	Intangible assets		94,890	-	-	-
1840	Deferred income tax assets	6(24)	726,996	1	458,853	1
1900	Other non-current assets		1,515	-	1,251	-
15XX	<b>Total non-current assets</b>		<u>101,049,631</u>	<u>84</u>	<u>105,488,512</u>	<u>86</u>
1XXX	<b>Total assets</b>		<u>\$ 120,483,675</u>	<u>100</u>	<u>\$ 122,818,994</u>	<u>100</u>

(Continued)

**CHENG SHIN RUBBER IND. CO., LTD.**  
**PARENT COMPANY ONLY BALANCE SHEETS**  
**DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2017		December 31, 2016		
		AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>						
2100	Short-term borrowings	6(9)	\$ -	-	\$ 450,000	-
2120	Financial liabilities at fair value through profit or loss - current	6(10)	408	-	-	-
2170	Accounts payable		1,313,171	1	957,958	1
2180	Accounts payable - related parties	7	34,919	-	19,683	-
2200	Other payables	6(11) and 7	2,316,803	2	2,561,326	2
2230	Current income tax liabilities	6(24)	971,856	1	971,551	1
2300	Other current liabilities	6(13)(14)	3,141,719	3	4,447,598	4
21XX	<b>Total current Liabilities</b>		<u>7,778,876</u>	<u>7</u>	<u>9,408,116</u>	<u>8</u>
<b>Non-current liabilities</b>						
2530	Bonds payable	6(13)	16,800,000	14	11,700,000	10
2540	Long-term borrowings	6(14)	11,548,000	9	11,548,998	9
2570	Deferred income tax liabilities	6(24)	1,348,631	1	1,836,061	1
2600	Other non-current liabilities	6(15)	802,876	1	832,568	1
25XX	<b>Total non-current liabilities</b>		<u>30,499,507</u>	<u>25</u>	<u>25,917,627</u>	<u>21</u>
2XXX	<b>Total liabilities</b>		<u>38,278,383</u>	<u>32</u>	<u>35,325,743</u>	<u>29</u>
<b>Equity</b>						
<b>Share capital</b>						
3110	Ordinary shares	6(16)	32,414,155	27	32,414,155	26
<b>Capital surplus</b>						
3200	Capital surplus	6(17)	52,576	-	52,576	-
<b>Retained earnings</b>						
		6(18)(25)				
3310	Legal reserve		14,280,767	12	12,955,677	11
3320	Special reserve		3,307,822	3	2,604,163	2
3350	Unappropriated retained earnings		36,580,033	30	42,774,502	35
<b>Other equity interest</b>						
		6(19)				
3400	Other equity interest		(4,430,061)	(4)	(3,307,822)	(3)
3XXX	<b>Total equity</b>		<u>82,205,292</u>	<u>68</u>	<u>87,493,251</u>	<u>71</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>						
		9				
<b>Significant events after the balance sheet date</b>						
		11				
3X2X	<b>Total liabilities and equity</b>		<u>\$ 120,483,675</u>	<u>100</u>	<u>\$ 122,818,994</u>	<u>100</u>

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

CHENG SHIN RUBBER IND. CO., LTD.  
**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
(Expressed in thousands of New Taiwan dollars, except earnings per share)

Items	Notes	Year ended December 31				
		2017		2016		
		AMOUNT	%	AMOUNT	%	
4000	<b>Sales revenue</b>	7	\$ 19,437,442	100	\$ 20,637,507	100
5000	<b>Operating costs</b>	6(5)	( 14,399,280)	( 74)	( 13,889,311)	( 67)
5900	<b>Net operating margin</b>		5,038,162	26	6,748,196	33
5910	Unrealized (profit) loss from sales		( 86,835)	-	62,625	-
5950	<b>Gross profit from operation</b>		4,951,327	26	6,810,821	33
	<b>Operating expenses</b>					
6100	Selling expenses		( 1,848,802)	( 10)	( 2,229,808)	( 11)
6200	General and administrative expenses		( 649,194)	( 3)	( 751,999)	( 3)
6300	Research and development expenses		( 1,114,556)	( 6)	( 983,970)	( 5)
6000	<b>Total operating expenses</b>	6(23)	( 3,612,552)	( 19)	( 3,965,777)	( 19)
6900	<b>Operating profit</b>		1,338,775	7	2,845,044	14
	<b>Non-operating income and expenses</b>					
7010	Other income	6(20) and 7	1,444,222	8	1,491,751	7
7020	Other gains and losses	6(21)	( 531,557)	( 3)	( 127,257)	-
7050	Finance costs	6(22)	( 338,104)	( 2)	( 359,095)	( 2)
7070	Share of profit of associates and joint ventures accounted for using equity method	6(6)				
			5,089,259	26	11,790,290	57
7000	<b>Total non-operating income and expenses</b>		5,663,820	29	12,795,689	62
7900	<b>Profit before income tax</b>		7,002,595	36	15,640,733	76
7950	Income tax expense	6(24)	( 1,460,810)	( 7)	( 2,389,830)	( 12)
8200	<b>Profit for the year</b>		\$ 5,541,785	29	\$ 13,250,903	64
	<b>Other comprehensive income</b>	6(19)(24)				
	<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8311	Other comprehensive income, before tax, actuarial losses on defined benefit plans	6(15)	\$ 19,804	-	( \$ 80,322)	-
8330	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss		304	-	( 1,035)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(24)	( 3,367)	-	13,655	-
8310	<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>		16,741	-	( 67,702)	-
	<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
8361	Other comprehensive income, before tax, exchange differences on translation		( 1,341,422)	( 7)	( 6,147,703)	( 30)
8362	Other comprehensive income, before tax, available-for-sale financial assets		3,041	-	( 31,974)	-
8380	Total share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss		( 11,900)	-	7,726	-
8399	Income tax relating to the components of other comprehensive income	6(24)	228,042	1	1,045,110	5
8360	<b>Components of other comprehensive loss that will be reclassified to profit or loss</b>		( 1,122,239)	( 6)	( 5,126,841)	( 25)
8300	<b>Other comprehensive loss for the year</b>		( \$ 1,105,498)	( 6)	( \$ 5,194,543)	( 25)
8500	<b>Total comprehensive income for the year</b>		\$ 4,436,287	23	\$ 8,056,360	39
9750	<b>Basic earnings per share</b>	6(25)	\$ 1.71		\$ 4.09	
9850	<b>Diluted earnings per share</b>	6(25)	\$ 1.71		\$ 4.08	

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

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	Notes	Capital Surplus			Retained Earnings			Other equity interest			Total equity
		Share capital - common stock	Treasury stock transactions	Gain on sale of assets	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain or loss on available-for-sale financial assets		
<u>Year ended December 31, 2016</u>											
Balance at January 1, 2016		\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 11,678,012	\$ 2,604,163	\$ 40,593,212	\$ 1,744,319	\$ 74,700	\$ 89,161,137	
Appropriations of 2015 earnings (Note 1):		-	-	-	-	-	-	-	-	-	
Legal reserve		-	-	-	1,277,665	-	(1,277,665)	-	-	-	
Cash dividends	6(18)	-	-	-	-	-	(9,724,246)	-	-	(9,724,246)	
Profit for the year		-	-	-	-	-	13,250,903	-	-	13,250,903	
Other comprehensive loss for the year	6(19)	-	-	-	-	-	(67,702)	(5,102,593)	(24,248)	(5,194,543)	
Balance at December 31, 2016		<u>\$ 32,414,155</u>	<u>\$ 9,772</u>	<u>\$ 42,804</u>	<u>\$ 12,955,677</u>	<u>\$ 2,604,163</u>	<u>\$ 42,774,502</u>	<u>\$ 3,358,274</u>	<u>\$ 50,452</u>	<u>\$ 87,493,251</u>	
<u>Year ended December 31, 2017</u>											
Balance at January 1, 2017		\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 12,955,677	\$ 2,604,163	\$ 42,774,502	\$ 3,358,274	\$ 50,452	\$ 87,493,251	
Appropriations of 2016 earnings (Note 2):		-	-	-	-	-	(1,325,090)	-	-	-	
Legal reserve		-	-	-	1,325,090	-	(1,325,090)	-	-	-	
Special reserve		-	-	-	-	703,659	(703,659)	-	-	-	
Cash dividends	6(18)	-	-	-	-	-	(9,724,246)	-	-	(9,724,246)	
Profit for the year		-	-	-	-	-	5,541,785	-	-	5,541,785	
Other comprehensive loss for the year	6(19)	-	-	-	-	-	(16,741)	(1,113,380)	(8,859)	(1,105,498)	
Balance at December 31, 2017		<u>\$ 32,414,155</u>	<u>\$ 9,772</u>	<u>\$ 42,804</u>	<u>\$ 14,280,767</u>	<u>\$ 3,307,822</u>	<u>\$ 36,580,033</u>	<u>\$ 4,471,654</u>	<u>\$ 41,593</u>	<u>\$ 82,205,292</u>	

Note 1: The directors' and supervisor' remuneration of \$255,117 thousand and employees' remuneration of \$321,913 thousand for the year ended December 31, 2015 have been eliminated from parent company only financial statements.  
Note 2: The directors' and supervisor' remuneration of \$264,748 thousand and employees' remuneration of \$324,446 thousand for the year ended December 31, 2016 have been eliminated from parent company only financial statements.

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

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 7,002,595	\$ 15,640,733
Adjustments			
Adjustments to reconcile profit (loss)			
Unrealised (gain) loss on inter-company transaction		60,927	( 35,944 )
Depreciation	6(7)	1,591,687	1,624,454
Amortization expense	6(23)	18,165	-
Depreciation on investment property	6(8)	612	727
Net gain on financial assets or liabilities at fair value through profit or loss	6(10)(21)	( 2,538 )	( 7,415 )
Loss on disposal of investments accounted for using equity method		1,946	-
Gain on disposal of investments		-	( 475 )
Gain on disposal of property, plant and equipment		( 161,814 )	( 206,811 )
Share of profit of associates and joint ventures accounted for using equity method	6(6)	( 5,089,259 )	( 11,790,290 )
Interest income	6(20)	( 154,215 )	( 104,899 )
Interest expense	6(22)	338,104	368,259
Effect of exchange rate changes on cash and cash equivalents		( 549,719 )	( 359,834 )
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable, net		( 1,189 )	2,895
Accounts receivable		188,091	37,034
Accounts receivable - related parties		( 330,180 )	( 383,446 )
Inventories		( 1,729,811 )	360,794
Other current assets		( 84,396 )	( 141,507 )
Other non-current assets		( 38 )	-
Changes in operating liabilities			
Accounts payable		355,213	( 6,410 )
Accounts payable - related parties		15,236	4,738
Other payables		( 697,732 )	79,568
Accrued pension liabilities		( 12,334 )	( 164,341 )
Other current liabilities		21,454	( 2,347 )
Cash inflow generated from operations		780,805	4,915,483
Interest received		156,860	86,879
Dividends received		8,912,898	7,781,595
Interest paid		( 327,623 )	( 350,801 )
Income tax paid		( 1,991,403 )	( 2,523,708 )
Net cash flows from operating activities		7,531,537	9,909,448

(Continued)

CHENG SHIN RUBBER IND. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(Expressed in thousands of New Taiwan dollars)

	Notes	2017	2016
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Net changes in financial instruments at fair value through profit or loss	6(2)(10)	\$ 2,946	\$ -
Proceeds from capital reduction of available-for-sale financial assets		-	2,408
Acquisition of investments accounted for using equity method		( 878,101 )	( 44,502 )
Proceed returned from liquidation of investee accounted for using equity method		97,000	-
Proceeds from disposal of property, plant and equipment		218,839	766,139
Acquisition of property, plant and equipment	6(7)(26)	( 859,902 )	( 1,530,309 )
Acquisition of intangible assets		( 10,453 )	-
Payment for capitalized interests	6(7)(26)	-	( 9,141 )
(Increase) decrease in refundable deposits		( 226 )	50
Net cash flows used in investing activities		( 1,429,897 )	( 815,355 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Increase in short-term loans		2,440,000	450,000
Decrease in short-term loans		( 2,890,000 )	-
Proceeds from issuing bonds	6(13)	7,000,000	5,000,000
Repayments of bonds		( 1,900,000 )	-
Increase in long-term loans		5,700,000	2,000,000
Decrease in long-term loans	6(14)	( 7,028,331 )	( 4,358,002 )
Decrease in guarantee deposits received		( 496 )	( 340 )
Cash dividends paid	6(18)	( 9,724,246 )	( 9,724,246 )
Net cash flows used in financing activities		( 6,403,073 )	( 6,632,588 )
		549,719	359,834
Net increase in cash and cash equivalents		248,286	2,821,339
Cash and cash equivalents at beginning of year	6(1)	11,754,387	8,933,048
Cash and cash equivalents at end of year	6(1)	\$ 12,002,673	\$ 11,754,387

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

CHENG SHIN RUBBER IND. CO., LTD.  
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

(Expressed in thousands of new Taiwan dollars, unless otherwise indicated)

1. HISTORY AND ORGANIZATION

Cheng Shin Rubber Ind. Co., Ltd. (the “Company”) was incorporated on December 1969 and is primarily engaged in: (a) Processing, manufacturing and trading of bicycle tires, electrical vehicle tires, reclaimed rubber, various rubbers and resin and other rubber products. (b) Manufacturing and trading of various rubber products and relevant rubber machinery.

The Company has been listed on the Taiwan Stock Exchange starting from December 1987.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

The parent company only financial statements have been authorized for issuance by the Board of Directors on March 20, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’	January 1, 2016
Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Amendments to IAS 1, ‘Disclosure initiative’	January 1, 2016
Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	January 1, 2016
Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’	January 1, 2016
Amendments to IAS 19, ‘Defined benefit plans: employee contributions’	July 1, 2014
Amendments to IAS 27, ‘Equity method in separate financial statements’	January 1, 2016
Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’	January 1, 2014
Amendments to IAS 39, ‘Novation of derivatives and continuation of hedge accounting’	January 1, 2014
IFRIC 21, ‘Levies’	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments 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
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
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised 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
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment. The quantitative impact is detailed as follows:

A. IFRS 9, 'Financial instruments'

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

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses ('ECL') or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).

#### B. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognize revenue when the performance obligation is satisfied

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

#### C. Amendments to IAS 7, 'Disclosure initiative'

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

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

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

A. In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets in the amounts of \$85,705 thousand, and make an irrevocable election at initial recognition on equity

instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income in the amounts of \$85,705 thousand.

B. In accordance with IFRS 9, the Group expects to reclassify available-for-sale financial assets in the amounts of \$41,670 thousand, by increasing financial assets at fair value through profit or loss, increasing retained earnings and decreasing other equity interest in the amounts of \$41,670 thousand, \$22,740 thousand and \$22,740 thousand, respectively.

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

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

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

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The accompanying parent company only financial statements are prepared in conformity with "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

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

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Available-for-sale financial assets measured at fair value.

(c) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

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

(3) Foreign currency translation

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The accompanying parent company only financial statements are presented in New Taiwan dollars, which is the Company's functional and presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses.

B. Translation of foreign operations

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

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

(c) All resulting exchange differences are recognized in other comprehensive income.

(4) Classification of current and non-current items

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

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

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

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

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

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

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

(7) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive.

(8) Receivables

Accounts receivable are receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event' ) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
  - (a) Significant financial difficulty of the issuer or debtor;
  - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
  - (c) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
  - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
  - (e) The disappearance of an active market for that financial asset because of financial difficulties;
  - (f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
  - (g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates

that the cost of the investment in the equity instrument may not be recovered;

(h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Financial assets measured at amortized cost

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

(b) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Lease receivables/ leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on

normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Investments accounted for using equity method / associates

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
- B. Unrealized gains or losses on transactions between the Company and subsidiaries have been eliminated. Accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of subsidiaries' post-acquisition profit or loss is recognized in the statement of comprehensive income, and its share of subsidiaries' post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals to or exceeds its interest in the subsidiary, the Company shall recognize the loss proportional to its shares.
- D. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. 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.
- E. When the Company loses control of a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Company loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.
- F. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 per cent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- G. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized

in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

- H. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associate and such changes not affecting the Company's ownership percentage of the associate, the Company recognizes the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- I. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- J. When the Company disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it still retains significant influence over this associate, then the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- K. According to the Rules Governing the Preparation of Financial Reports by Securities Issuers, net income and other comprehensive income in the parent company only financial statements shall use the same allotments as the ones that are attributable to owners of the parent in the consolidated financial statements. Equity in parent company only financial statements should equal to equity attributable to owners of the parent in the consolidated financial statements.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if

appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

- (a) Buildings: 5 ~ 60 years
- (b) Machinery and equipment: 15 years
- (c) Test equipment: 5 years
- (d) Transportation equipment: 6 years
- (e) Office equipment: 5 years
- (f) Other assets: 5 years

(15) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 5 ~ 55 years.

(16) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 2 to 5 years.

(17) Impairment of non-financial assets

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

(18) Borrowings

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

B. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-

payment for liquidity services and amortized over the period of the facility to which it relates.

(19) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

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

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

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

(21) Derecognition of financial liabilities

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

(22) Offsetting financial instruments

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

(23) Financial liabilities and equity instruments

Ordinary corporate bonds issued by the Company are initially recognized at fair value, net of transaction costs incurred. Ordinary corporate bonds are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortized in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

(24) Financial guarantee contracts

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

(25) Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Any changes in the fair value are recognized in profit or loss.

(26) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

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

C. Employees', directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(27) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive

income or equity.

- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(28) Dividends

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

(29) Revenue recognition

Sales of goods

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

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

The preparation of the parent company only financial statements requires management to make critical judgements in applying the Company’s accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. There are no critical accounting judgement, estimates and assumptions uncertainty for the year ended December 31, 2017.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash on hand and petty cash	\$ 550	\$ 550
Checking accounts	3,420	3,916
Demand deposits	1,076,622	2,506,718
Foreign currency deposit	3,776,691	2,770,724
Time deposits	7,145,390	6,472,479
Total	<u>\$ 12,002,673</u>	<u>\$ 11,754,387</u>
Interest rate range		
Time deposits	<u>1.60%~4.58%</u>	<u>0.95%~5.38%</u>

- A. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. The Company has reclassified pledged time deposits to ‘Other current assets’. Please refer to Note 8 for details.

(2) Available-for-sale financial assets

Items	December 31, 2017	December 31, 2016
Current items:		
Listed stocks	\$ 8,665	\$ 8,665
Funds	18,930	18,930
	<u>27,595</u>	<u>27,595</u>
Available-for-sale financial assets		
Valuation adjustment	41,593	38,552
	<u>\$ 69,188</u>	<u>\$ 66,147</u>
Non-current items:		
Non-listed stocks	<u>\$ 58,187</u>	<u>\$ 58,187</u>

The Company recognized gain (loss) \$3,041 thousand and (\$18,254) thousand in other comprehensive income for fair value change and reclassified loss of \$0 thousand and \$13,720 thousand from equity to profit or loss for the years ended December 31, 2017 and 2016, respectively.

(3) Notes receivable, net

	December 31, 2017	December 31, 2016
Notes receivable	\$ 32,780	\$ 31,591
Less: Allowance for bad debts	( 9,277)	( 9,277)
	<u>\$ 23,503</u>	<u>\$ 22,314</u>

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

	December 31, 2017	December 31, 2016
Vehicle assembly factory	\$ 22,634	\$ 18,577
Dealer	773	-
Others	9,373	13,014
	<u>\$ 32,780</u>	<u>\$ 31,591</u>

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

- (a) As of December 31, 2017 and 2016, the Company had no notes receivable that were impaired.
- (b) Movements on the Company's provision for impairments of accounts receivable were as follows:

	2017		
	Individual provision	Group provision	Total
At January 1 and December 31	<u>\$ -</u>	<u>\$ 9,277</u>	<u>\$ 9,277</u>
	2016		
	Individual provision	Group provision	Total
At January 1 and December 31	<u>\$ -</u>	<u>\$ 9,277</u>	<u>\$ 9,277</u>

(4) Accounts receivable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable	\$ 1,192,846	\$ 1,380,937
Less: Allowance for bad debts	( 11,718)	( 11,718)
	<u>\$ 1,181,128</u>	<u>\$ 1,369,219</u>

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

	<u>December 31, 2016</u>	<u>December 31, 2016</u>
Vehicle assembly factory	\$ 488,004	\$ 566,617
Dealer	339,445	474,896
Others	114,815	103,219
	<u>\$ 942,264</u>	<u>\$ 1,144,732</u>

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Up to 30 days	\$ 194,639	\$ 176,844
31 to 90 days	40,979	51,019
91 to 180 days	14,107	6,968
More than 180 days	857	1,374
	<u>\$ 250,582</u>	<u>\$ 236,205</u>

The above ageing analysis was based on past due date.

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

(a) As of December 31, 2017 and 2016, the Company had no accounts receivable that were impaired.

(b) Movements on the Company provision for impairment of accounts receivable are as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1 and December 31	<u>\$ -</u>	<u>\$ 11,718</u>	<u>\$ 11,718</u>

	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1 and December 31	<u>\$ -</u>	<u>\$ 11,718</u>	<u>\$ 11,718</u>

D. The Company holds real estate and certificates of deposit as collateral for accounts receivable.

(5) Inventories

	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 1,532,737	\$ -	\$ 1,532,737
Work in process	1,188,302	-	1,188,302
Finished goods	723,770	( 13,904)	709,866
Merchandise	15,998	-	15,998
Total	<u>\$ 3,460,807</u>	<u>(\$ 13,904)</u>	<u>\$ 3,446,903</u>

	December 31, 2016		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 989,935	\$ -	\$ 989,935
Work in process	133,306	-	133,306
Finished goods	607,755	( 13,904)	593,851
Total	<u>\$ 1,730,996</u>	<u>(\$ 13,904)</u>	<u>\$ 1,717,092</u>

The cost of inventories recognized as expense for the period:

	2017	2016
Cost of goods sold	\$ 14,414,459	\$ 13,890,724
Loss on inventory retirement	897	-
Loss on physical inventory	7,499	17,901
Revenue from sale of scraps	( 23,575)	( 19,314)
	<u>\$ 14,399,280</u>	<u>\$ 13,889,311</u>

(6) Investments accounted for using equity method

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries:		
MAXXIS International Co., Ltd.	\$ 41,446,874	\$ 43,421,844
CST Trading Ltd.	25,175,906	26,373,039
MAXXIS Trading Ltd.	9,890,087	10,878,314
CHENG SHIN RUBBER USA, INC.	2,433,930	2,580,312
MAXXIS Rubber India Private Limited	2,049,105	1,695,356
PT MAXXIS International Indonesia	1,720,489	2,347,361
CHENG SHIN RUBBER CANADA, INC.	726,855	624,408
MAXXIS (Taiwan) Trading CO., LTD	424,875	298,139
MAXXIS Tech Center Europe B.V.	60,157	53,470
PT MAXXIS TRADING INDONESIA	29,968	-
CIAO SHIN CO., LTD.	-	176,165
Associates:		
NEW PACIFIC INDUSTRY COMPANY	154,347	164,767
Cheng Shin Holland B.V.	16,673	12,546
	<u>\$ 84,129,266</u>	<u>\$ 88,625,721</u>

A. Subsidiary

(a) Details of the Company's subsidiaries are provided in Note 4(3) of the Company's consolidated financial statements as of and for the year ended December 31, 2017.

B. Associates

(a) The basic information of the associates that are material to the Company is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>	<u>Profit or loss</u>	<u>Shareholding ratio</u>
2017/12/31	<u>\$ 656,848</u>	<u>\$ 304,162</u>	<u>\$ 881,156</u>	<u>\$ 19,881</u>	30%~49.99%
2016/12/31	<u>\$ 668,098</u>	<u>\$ 308,980</u>	<u>\$ 1,043,043</u>	<u>\$ 57,372</u>	30%~49.99%

(7) Property, plant and equipment

	Year ended December 31, 2017				
	Beginning of Period	Addition	Disposals	Transfers	End of Period
Cost					
Land	\$ 3,925,468	\$ -	\$ -	-	\$ 3,925,468
Buildings	6,037,632	29,500	-	22,630	6,089,762
Machinery	11,202,257	74,196	( 73,673)	316,658	11,519,438
Testing equipment	619,626	6,741	-	91,270	717,637
Transportation	134,390	9,976	( 2,780)	-	141,586
Office equipment	79,452	24,717	-	37,046	141,215
Other facilities	2,473,154	376,230	( 15,602)	83,345	2,917,127
Unfinished construction and equipment under acceptance	596,738	784,210	-	( 550,949)	829,999
	<u>\$ 25,068,717</u>	<u>\$ 1,305,570</u>	<u>(\$ 92,055)</u>	<u>\$ -</u>	<u>\$ 26,282,232</u>
Accumulated depreciation					
Buildings	(\$ 1,804,209)	\$ 176,975	\$ -	-	(\$ 1,981,184)
Machinery	( 5,147,674)	( 826,917)	67,049	-	( 5,907,542)
Testing equipment	( 453,283)	( 99,726)	-	-	( 553,009)
Transportation	( 86,033)	( 15,957)	1,429	-	( 100,561)
Office equipment	( 40,107)	( 17,499)	-	-	( 57,606)
Other facilities	( 1,484,696)	( 454,613)	4,583	-	( 1,934,726)
	<u>(\$ 9,016,002)</u>	<u>\$ 1,591,687</u>	<u>\$ 73,061</u>	<u>\$ -</u>	<u>(\$ 10,534,628)</u>
	<u>\$ 16,052,715</u>				<u>\$ 15,747,604</u>

Year ended December 31, 2016

	Beginning of Period	Addition	Disposals	Transfers	End of Period
<b>Cost</b>					
Land	\$ 3,925,073	\$ 395	\$ -	\$ -	\$ 3,925,468
Buildings	5,899,713	49,078	( 39,985)	128,826	6,037,632
Machinery	11,268,990	114,526	( 758,360)	577,101	11,202,257
Testing equipment	704,080	3,023	( 125,863)	38,386	619,626
Transportation	146,357	16,327	( 29,250)	956	134,390
Office equipment	66,670	29,944	( 17,162)	-	79,452
Other facilities	2,586,992	379,682	( 507,606)	14,086	2,473,154
Unfinished construction and equipment under acceptance	1,016,734	909,595	( 564,000)	( 765,591)	596,738
	<u>\$ 25,614,609</u>	<u>\$ 1,502,570</u>	<u>(\$ 2,042,226)</u>	<u>(\$ 6,236)</u>	<u>\$ 25,068,717</u>
<b>Accumulated depreciation</b>					
Buildings	(\$ 1,665,915)	\$ 178,280	\$ 39,986	\$ -	(\$ 1,804,209)
Machinery	( 5,057,667)	( 847,207)	757,200	-	( 5,147,674)
Testing equipment	( 494,219)	( 83,413)	124,349	-	( 453,283)
Transportation	( 81,827)	( 17,738)	13,532	-	( 86,033)
Office equipment	( 43,083)	( 14,186)	17,162	-	( 40,107)
Other facilities	( 1,510,453)	( 483,630)	503,151	6,236	( 1,484,696)
	<u>(\$ 8,853,164)</u>	<u>(\$ 1,624,454)</u>	<u>\$ 1,455,380</u>	<u>\$ 6,236</u>	<u>(\$ 9,016,002)</u>
	<u>\$ 16,761,445</u>				<u>\$ 16,052,715</u>

Amount of borrowing costs capitalized as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	2017	2016
Amount capitalised	\$ -	\$ 9,141
capitalisation	0.00%~0.00%	1.20%~1.42%

(8) Investment property, net

	2017			
	<u>At January 1, 2017</u>	<u>Additions</u>	<u>Transfer</u>	<u>At December 31, 2017</u>
Cost				
Land	\$ 336,339	\$ -	\$ -	\$ 336,339
Buildings	27,766	-	-	27,766
	<u>\$ 364,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 364,105</u>
Accumulated depreciation				
Buildings	(\$ 21,282)	(\$ 612)	\$ -	(\$ 21,894)
Accumulated impairment				
Land	(\$ 51,038)	<u>\$ -</u>	<u>\$ -</u>	(\$ 51,038)
	<u>\$ 291,785</u>			<u>\$ 291,173</u>
	2016			
	<u>At January 1, 2016</u>	<u>Additions</u>	<u>Transfer</u>	<u>At December 31, 2016</u>
Cost				
Land	\$ 359,315	\$ -	(\$ 22,976)	\$ 336,339
Buildings	50,825	-	( 23,059)	27,766
	<u>\$ 410,140</u>	<u>\$ -</u>	<u>(\$ 46,035)</u>	<u>\$ 364,105</u>
Accumulated depreciation				
Buildings	(\$ 30,850)	(\$ 727)	\$ 10,295	(\$ 21,282)
Accumulated impairment				
Land	(\$ 51,038)	<u>\$ -</u>	<u>\$ -</u>	(\$ 51,038)
	<u>\$ 328,252</u>			<u>\$ 291,785</u>

A. Rental income from investment property is shown below:

	2017	2016
Rental income from investment property	\$ 8,725	\$ 8,725

B. The fair value of the investment property held by the Company as at December 31, 2017 and 2016 were \$529,829 thousand and \$529,829 thousand, respectively, which was valued by independent valuers. Valuations were made using the item by item approach which is categorised within Level 3 in the fair value hierarchy.

C. The Company acquired the land in Shangmei Section, Dacun Township, Changhua County which is farming and pasturable land. The land will be registered under the Company after the category of the land is changed. Currently, the land is under the name of related party, Mr./Ms. Chiu. The land is planned to be used for operational expansion. The Company holds the original ownership certificate of such land and signed a land trust agreement, which requires the nominal holder not to transfer the ownership of the land to others.

(9) Short-term borrowings

As of December 31, 2017, the Company did not hold any short-term borrowings.

<u>Type of borrowings</u>	<u>December 31, 2016</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank borrowings			
Bank unsecured borrowings	\$ <u>450,000</u>	0.84%	None

(10) Financial assets and liabilities at fair value through profit or loss

<u>Items</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
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Current items:

Financial liabilities held for trading

Forward foreign exchange contracts	\$ 408	\$ -
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A. The Company recognized gain of \$ 2,538 thousand and (\$3,313) thousand on financial assets and liabilities held for trading for the years ended December 31, 2017 and 2016, respectively.

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

<u>Type of goods</u>	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Contract amount (Notional principal)</u>	<u>Contract period</u>	<u>Contract amount (Notional principal)</u>	<u>Contract period</u>
Current items:				
Forward foreign exchange contracts (USD exchange to NTD)	<u>USD 6,000 thousand</u>	2017.11.23 ~ 2018.01.29	<u>-</u>	-

(a) Forward foreign exchange contracts

The Company entered into forward foreign exchange contracts to buy or sell USD to hedge exchange rate risk of import (or export) proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

(b) Interest rate swaps

The Company entered into interest rate swap contracts with financial institutions to hedge cash flow risk liability positions. However, these interest rate swap contracts are not accounted for under hedge accounting.

(11) Other payables

<u>Items</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Employee benefits payable	\$ 469,776	\$ 646,359
Wages and salaries payable	305,568	423,738
Payable on machinery and equipment	736,136	290,468
Compensation due to directors and supervisors	118,590	257,124
Other accrued expenses	606,903	695,328
Others	79,830	248,309
	<u>\$ 2,316,803</u>	<u>\$ 2,561,326</u>

(12) Other current liabilities

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Long-term liabilities due within one year	\$ 3,052,667	\$ 4,380,000
Advance receipts	86,267	67,598
Other	2,785	-
	<u>\$ 3,141,719</u>	<u>\$ 4,447,598</u>

(13) Bonds payable

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Bond payable-issued on 2013	1,900,000	3,800,000
Bond payable-issued on 2014	4,800,000	4,800,000
Bond payable-issued on 2016	5,000,000	5,000,000
Bond payable-issued on 2017	7,000,000	-
Subtotal	18,700,000	13,600,000
Less: Current portion	( 1,900,000)	( 1,900,000)
Total	<u>\$ 16,800,000</u>	<u>\$ 11,700,000</u>

A. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds (“the bonds”). The bond issuance has been approved by the FSC on August 1, 2017 and completed on August 10, 2017. The bonds were fully issued and total issuance amount was \$7 billion with a coupon rate of 1.03%. The issuance period of the bonds is 5 years, which is from August 10, 2017 to August 10, 2022. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

B. In order to fulfill its issue and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic secured bonds (“the bonds”). The bond issue has been approved by FSC on September 13, 2016 and completed on September 26, 2016. The bonds were fully issued and total issuance amount was \$5 billion with a coupon rate of 0.71%. The issuance period of the bonds is 5 years, which is from September 26, 2016 to September 26, 2021. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

C. In order to meet operating capital requirements, repay debts and improve the financial structure, the Board of Directors of the Company has resolved to issue domestic unsecured bonds (“the bonds”). The bond issue has been approved by FSC on June 6, 2014 and completed on July 18, 2014. The bonds were fully issued and total issuance amount was \$4.8 billion with a coupon rate of 1.40%. The issuance period of the bonds is 5 years, which is from July 18, 2014 to July 18, 2019. The terms are as follows :

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The corporate bond will be redeemed in full amount at the maturity date.

D. In order to fulfil its capital and repay long-term and short-term loans, the Board of Directors of the Company has resolved to issue domestic unsecured bonds (“the bonds”). The bond issue has been approved by FSC on May 20, 2013 and completed on August 19, 2013. The bonds were fully issued and total issuance amount was \$3.8 billion with a coupon rate of 1.55%. The issuance period of the bonds is 5 years, which is from August 19, 2013 to August 19, 2018. The terms are as follows:

(a) Interest accrued/ paid:

The interest is accrued/ paid at a single rate annually from the issue date.

(b) Redemption:

The principal of the corporate bond will be redeemed at 50% of the total amount after four and five years from the issue date.

(14) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	Date("ADNormal", (
Installment-repayment borrowings				
Unsecured borrowings	Principal is repayable in installments until November, 2021	0.97% ~ 1.31%	None	\$ 12,700,667
Less: Current portion				( 1,152,667)
				<u>\$ 11,548,000</u>

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2016
Installment-repayment borrowings				
Unsecured borrowings	Principal is repayable in installments until November, 2021	0.38% ~ 1.38%	None	\$ 14,028,998
Less: Current portion				( 2,480,000)
				<u>\$ 11,548,998</u>

According to the borrowing contract, the Company shall calculate the financial ratios based on the audited annual financial statements (non-consolidated and consolidated) and the reviewed semi-annual consolidated financial statements. The financial ratios shall be maintained as follows: at least 100% for current ratio, no more than 200% for debt-to-equity ratio, at least 150% for debt-service coverage ratio. The financial ratios as assessed in the financial statements have met the abovementioned requirements for the years ended December 31, 2017 and 2016.

(15) Pensions

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

Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	\$ 1,475,833	\$ 1,535,785
Fair value of plan assets	( 721,893)	( 752,649)
Net defined benefit liability	<u>\$ 753,940</u>	<u>\$ 783,136</u>

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

	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
Year ended December 31, 2017			
Balance at January 1	\$ 1,535,785	(\$ 752,649)	\$ 783,136
Current service cost	25,849	-	25,849
Interest expense (income)	<u>21,501</u>	<u>( 10,537)</u>	<u>10,964</u>
	<u>1,583,135</u>	<u>( 763,186)</u>	<u>819,949</u>
Remeasurements:			
Change in financial assumptions	46,083	-	46,083
Experience adjustments	( 68,585)	-	( 68,585)
Return on plan assets (excluding amounts included in interest income or expense)	<u>-</u>	<u>2,698</u>	<u>2,698</u>
	<u>( 22,502)</u>	<u>2,698</u>	<u>( 19,804)</u>
Pension fund contribution	-	( 35,789)	( 35,789)
Paid pension	<u>( 84,800)</u>	<u>74,384</u>	<u>( 10,416)</u>
Balance at December 31	<u>\$ 1,475,833</u>	<u>(\$ 721,893)</u>	<u>\$ 753,940</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2016			
Balance at January 1	\$ 1,551,557	(\$ 684,402)	\$ 867,155
Current service cost	27,965	-	27,965
Interest expense (income)	26,376	( 11,634)	14,742
	<u>1,605,898</u>	<u>( 696,036)</u>	<u>909,862</u>
Remeasurements:			
Change in financial assumptions	50,225	-	50,225
Experience adjustments	25,117	-	25,117
Return on plan assets (excluding amounts included in interest income or expense)	-	4,980	4,980
	<u>75,342</u>	<u>4,980</u>	<u>80,322</u>
Pension fund contribution	-	( 148,959)	( 148,959)
Paid pension	( 145,455)	87,366	( 58,089)
Balance at December 31	<u>\$ 1,535,785</u>	<u>(\$ 752,649)</u>	<u>\$ 783,136</u>

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

For the years ended December 31, 2017 and 2016, the actual return on plan assets was \$7,839 thousand and \$6,654 thousand, respectively.

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

	Year ended December 31, 2017	Year ended December 31, 2016
Discount rate	<u>1.10%</u>	<u>1.40%</u>
Future salary increases	<u>3.00%</u>	<u>3.00%</u>

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

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

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2017				
Effect on present value of defined benefit obligation	<u>(\$ 38,553)</u>	<u>\$ 40,106</u>	<u>\$ 35,767</u>	<u>(\$ 34,629)</u>

	Discount rate		Future salary increases	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
December 31, 2016				
Effect on present value of defined benefit obligation	<u>(\$ 42,022)</u>	<u>(\$ 43,760)</u>	<u>\$ 39,325</u>	<u>(\$ 38,033)</u>

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

- (f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2018 amounts to \$35,277 thousand.
- (g) As of December 31, 2017, the weighted average duration of that retirement plan is 11 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	137,761
2-5 year(s)		246,765
Over 6 years		393,035
	<u>\$</u>	<u>777,561</u>

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

- (b) The pension costs under defined contribution pension plans of the Company for the years ended December 31, 2017 and 2016, were \$130,895 thousand and \$115,996 thousand, respectively.

(16) Share capital

As of December 31, 2017, the Company's authorized capital was \$32,414,155 thousand, and all proceeds from shares issued have been collected.

(17) Capital surplus

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

paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(18) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder, if any, shall be distributed as employees' bonus and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' bonus and shall not be higher than 3% for directors' and supervisors' remuneration. The appropriation of the remaining amount along with the unappropriated earnings shall be proposed by the Board of Directors and be resolved by the shareholders. According to the appropriation of earnings proposed by the Board of Directors, at least 10% ~ 80% of the Company's accumulated distributable earnings shall be appropriated as dividends, and cash dividends shall account for at least 10% of the total dividends distributed.
- B. Where the Company accrues annual net income, no less than 2% of which shall be appropriated as employees' compensation and no higher than 3% of which shall be appropriated as directors' remuneration after offsetting accumulated deficit. The employees' compensation can be appropriated in the form of share or cash whereas the directors' remuneration can only be appropriated in the form of cash. The appropriations require attendance of over two thirds of Board of Directors members and approval of over the half of attendees. The resolution of Board of Directors shall be reported at the shareholders' meeting. The recipients of aforementioned employees' compensation include eligible employees of subordinate companies who meet the requirements set out by the Board of Directors.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.  
(b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- E. The Company recognized dividends distributed to owners both amounting to \$9,724,246 thousand (cash dividend of \$3 per share), to shareholders for the years ended December 31, 2017 and 2016, respectively. On March 20, 2018, the Board of Directors proposed that total dividends for the distribution of earnings for the year of 2017 was \$5,834,548 thousand at \$1.8 (in dollars) per share.
- F. For information relating to employees' remuneration and directors' and supervisors' remuneration, please refer to Note 6(23).

(19) Other equity items

	2017		
	Currency translation	Available-for-sale investment	Total
At January 1	(\$ 3,358,274)	\$ 50,452	(\$ 3,307,822)
Company	-	3,041	3,041
Revaluation adjustment – Associates	-	( 11,900)	( 11,900)
Currency translation differences :			
Subsidiaries and associates – Before income tax	( 1,341,422)	-	( 1,341,422)
Subsidiaries and associates – Tax	<u>228,042</u>	<u>-</u>	<u>228,042</u>
At December 31	<u>(\$ 4,471,654)</u>	<u>\$ 41,593</u>	<u>(\$ 4,430,061)</u>
	2016		
	Currency translation	Available-for-sale investment	Total
At January 1	\$ 1,744,319	\$ 74,700	\$ 1,819,019
Company	-	( 18,254)	( 18,254)
Revaluation adjustment – Associates	-	7,726	7,726
Revaluation transfer – The Company	-	( 13,720)	( 13,720)
Currency translation differences:			
Subsidiaries and associates – Before income tax	( 6,147,703)	-	( 6,147,703)
Subsidiaries and associates –Tax	<u>1,045,110</u>	<u>-</u>	<u>1,045,110</u>
At December 31	<u>(\$ 3,358,274)</u>	<u>\$ 50,452</u>	<u>(\$ 3,307,822)</u>

(20) Other income

	2017	2016
Revenue from patent royalties	\$ 533,677	\$ 556,672
Revenue from trademark royalties	398,046	401,572
Revenue from commission	250,371	261,362
Interest income – Endorsements/guarantees	12,153	12,293
Interest income	142,062	92,606
Income from investment	14,249	19,960
Others	<u>93,664</u>	<u>147,286</u>
Total	<u>\$ 1,444,222</u>	<u>\$ 1,491,751</u>

(21) Other gains and losses

	<u>2017</u>	<u>2016</u>
Net currency exchange (losses)	(\$ 700,577)	(\$ 295,818)
Gains on disposal of property, plant and equipment	161,814	206,811
Net gains on financial assets and liabilities at fair value through profit or loss	2,538	7,415
(Losses) gains on investment	( 1,946)	475
Miscellaneous income (disbursements)	6,614	( 46,140)
Total	<u>(\$ 531,557)</u>	<u>(\$ 127,257)</u>

(22) Finance costs

	<u>2017</u>	<u>2016</u>
Interest expense:		
Bank borrowings	\$ 166,961	\$ 223,302
Corporate bonds	171,143	137,933
(Losses) gains on fair value change of financial instruments:		
Interest rate swaps	-	7,001
	<u>338,104</u>	<u>368,236</u>
Less: Capitalisation of qualifying assets	-	( 9,141)
Finance costs	<u>\$ 338,104</u>	<u>\$ 359,095</u>

(23) Expenses by nature

	<u>Year ended December 31, 2017</u>		
	<u>Operating costs</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefits costs			
Wages and salaries	\$ 2,360,512	\$ 1,255,096	\$ 3,615,608
Labour and health insurance fees	228,169	109,963	338,132
Pension costs	111,522	56,186	167,708
Other personnel expenses	78,325	33,279	111,604
	<u>\$ 2,778,528</u>	<u>\$ 1,454,524</u>	<u>\$ 4,233,052</u>
Amortisation charges on intangible assets	<u>\$ 8,767,952</u>	<u>\$ -</u>	<u>\$ 8,767,952</u>
Raw materials and supplies used	<u>\$ 1,385,289</u>	<u>\$ 206,398</u>	<u>\$ 1,591,687</u>
Depreciation charges on property, plant and equipment	<u>\$ -</u>	<u>\$ 612</u>	<u>\$ 612</u>
Depreciation on investment property	<u>\$ 114</u>	<u>\$ 18,051</u>	<u>\$ 18,165</u>

	Year ended December 31, 2016		
	<u>Operating costs</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefits costs			
Wages and salaries	\$ 2,378,852	\$ 1,291,503	\$ 3,670,355
Labour and health insurance fees	203,651	95,135	298,786
Pension costs	107,494	51,209	158,703
Other personnel expenses	78,192	33,151	111,343
	<u>\$ 2,768,189</u>	<u>\$ 1,470,998</u>	<u>\$ 4,239,187</u>
Raw materials and supplies used	<u>\$ 7,613,328</u>	<u>\$ -</u>	<u>\$ 7,613,328</u>
Depreciation charges on property, plant and equipment	<u>\$ 1,470,068</u>	<u>\$ 154,386</u>	<u>\$ 1,624,454</u>
Depreciation on investment property	<u>\$ -</u>	<u>\$ 727</u>	<u>\$ 727</u>

As of December 31, 2017 and 2016, the Company had 6,263 and 5,716 employees, respectively.

A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.

B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$145,330 and \$324,446, respectively; while directors' and supervisors' remuneration was accrued at \$118,590 and \$257,124, respectively. The amounts were recognized in salary expenses.

For the years ended December 31, 2017, the employees' compensation and directors' and supervisors' remuneration was estimated and accrued based on 2% and 1.632% of distributable profit of current year as of the end of reporting period.

For 2016, the employees' compensation of 2016 as resolved at the meeting of Board of Directors amounting to \$324,446 was in agreement with those amounts recognized in the 2016 financial statements. The Board of Directors during its meeting resolved to distribute 1.632% of retained earnings as supervisors' remuneration for the year ended December 31, 2016 while the amounts recognized in the financial statements based on 2.22% of retained earnings was \$357,324 for directors' and supervisors' remuneration. The difference of the directors' and supervisors' remuneration for the year ended 2016 between the two was \$102,207 thousand. The difference resulted from adjustment of estimated percentage of directors' and supervisors' remuneration which had been adjusted in the profit or loss for 2017. The employees' compensation for 2015 will be distributed in cash. For the year ended December 31, 2017, the employees' compensation for 2016 has not yet been distributed.

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

(24) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Current tax:		
Current tax on profits for the period	\$ 1,644,800	\$ 1,583,640
Prior year income tax understimation	203,888	324,015
10% Tax on undistributed surplus earnings	<u>143,020</u>	<u>174,783</u>
Total current tax	1,991,708	2,082,438
Deferred tax:		
Origination and reversal of temporary differences	( 530,898)	<u>307,392</u>
Income tax expense	<u>\$ 1,460,810</u>	<u>\$ 2,389,830</u>
(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:		

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Currency translation differences	\$ 228,042	\$ 1,045,110
Remeasurement of defined benefit obligations	( 3,367)	<u>13,655</u>
Income tax from other comprehensive income	<u>\$ 224,675</u>	<u>\$ 1,058,765</u>

B. Reconciliation between income tax expense and accounting profit

	Year ended <u>December 31, 2017</u>	Year ended <u>December 31, 2016</u>
Tax calculated based on profit before tax and statutory tax rate	\$ 1,190,441	\$ 2,658,925
Effects from items disallowed by tax regulation	79,874	68,363
Temporary difference not recognized as deferred tax liabilities	( 94,548)	( 740,235)
Effect from five-year tax exemption	( 61,866)	( 96,021)
Prior year income tax (over) understimation	203,889	324,015
10% Tax on undistributed surplus earnings	<u>143,020</u>	<u>174,783</u>
Income tax expense	<u>\$ 1,460,810</u>	<u>\$ 2,389,830</u>

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

	2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:				
— Temporary differences:				
Unrealized gain on inter-affiliated accounts	\$ 129,018	\$ 16,823	\$ -	\$ 145,841
Remeasurement of defined benefit obligations	150,097	-	( 3,367)	146,730
Unrealized evaluation losses on financial assets and liabilities	-	69	-	69
Exchange differences on translation of foreign financial statements	166,481	-	228,042	394,523
Unrealised exchanges gain	-	26,576	-	26,576
Others	13,257	-	-	13,257
Subtotal	<u>\$ 458,853</u>	<u>\$ 43,468</u>	<u>\$ 224,675</u>	<u>\$ 726,996</u>
— Deferred tax liabilities:				
Gain on foreign long-term investments	(\$ 1,287,141)	\$ 469,382	\$ -	(\$ 817,759)
Adjustment of land value increment tax	( 514,733)	-	-	( 514,733)
Exchange differences on translation of foreign financial statements	-	-	-	-
Unrealised exchange gain	( 7,776)	7,776	-	-
Others	( 26,411)	10,272	-	( 16,139)
Subtotal	<u>(\$ 1,836,061)</u>	<u>\$ 487,430</u>	<u>\$ -</u>	<u>(\$ 1,348,631)</u>
Total	<u>(\$ 1,377,208)</u>	<u>\$ 530,898</u>	<u>\$ 224,675</u>	<u>(\$ 621,635)</u>

	2016			
	January 1	Recognised in other		December 31
		profit or loss	comprehensive income	
Deferred tax assets:				
— Temporary differences:				
Unrealized gain on inter-affiliated accounts	\$ 136,448	(\$ 7,430)	\$ -	\$ 129,018
Remeasurement of defined benefit obligations	136,442	-	13,655	150,097
Unrealized evaluation losses on financial assets and liabilities	1,261	( 1,261)	-	-
Exchange differences on translation of foreign financial statements	-	-	166,481	166,481
Others	<u>12,819</u>	<u>438</u>	<u>-</u>	<u>13,257</u>
Subtotal	<u>\$ 286,970</u>	<u>(\$ 8,253)</u>	<u>\$ 180,136</u>	<u>\$ 458,853</u>
— Deferred tax liabilities:				
Gain on foreign long-term investments	(\$ 994,514)	(\$ 292,627)	\$ -	(\$ 1,287,141)
Adjustment of land value increment tax	( 514,733)	-	-	( 514,733)
Exchange differences on translation of foreign financial statements	( 878,629)	-	878,629	-
Unrealised exchange gain	( 10,684)	2,908	-	( 7,776)
Others	<u>( 16,991)</u>	<u>( 9,420)</u>	<u>-</u>	<u>( 26,411)</u>
Subtotal	<u>(\$ 2,415,551)</u>	<u>(\$ 299,139)</u>	<u>\$ 878,629</u>	<u>(\$ 1,836,061)</u>
Total	<u>(\$ 2,128,581)</u>	<u>(\$ 307,392)</u>	<u>\$ 1,058,765</u>	<u>(\$ 1,377,208)</u>

D. In 2009, the investment plan of the Company to increase capital for expanding its production of rubber products is qualified for “Five-year tax exemption incentive for investment in the establishment or expansion of manufacturing enterprises or related technical services from July 1, 2008 to December 31, 2009”. The Company is entitled to income tax exemption for 5 consecutive years starting from 2014 to 2018.

E. The Company accrued deferred tax liabilities, taking into account operating result, degree of expansion and dividend policy of each overseas subsidiary. Based on the assessment, the amounts of temporary difference unrecognised as deferred tax liabilities as of December 31, 2016 and 2015 were \$41,912,057 thousand and \$43,481,764 thousand, respectively.

F. The Company’s income tax returns through 2015 have been assessed and approved by the Tax Authority while the income tax returns through 2014 have not been assessed and approved.

G. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of

December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

	<u>December 31, 2016</u>	
Earnings generated in and before 1997	\$	26,215
Earnings generated in and after 1998		<u>42,748,287</u>
Total	\$	<u>42,774,502</u>

H. As of December 31, 2016, the balance of the imputation tax credit account was \$3,370,734 thousand. The creditable tax rate was 9.87% for the year ended December 31, 2016.

(25) Earnings per share

	<u>2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 5,541,785</u>	<u>3,241,416</u>	<u>\$ 1.71</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	5,541,785	3,241,416	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	<u>-</u>	<u>3,930</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 5,541,785</u>	<u>\$ 3,245,346</u>	<u>\$ 1.71</u>

	2016		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 13,250,903	3,241,416	\$ 4.09
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	13,250,903	3,241,416	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	6,845	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 13,250,903	\$ 3,248,261	\$ 4.08

(26) Supplemental cash flow information

Investing activities with partial cash payments

	<u>2017</u>	<u>2016</u>
Purchase of property, plant and equipment	\$ 1,305,570	\$ 1,502,570
Add: Opening balance of payable on	290,468	327,348
Less: Ending balance of payable on equipment	( 736,136)	( 290,468)
Cash paid during the period	\$ 859,902	\$ 1,539,450

7. RELATED PARTY TRANSACTIONS

(1) Name of related parties and relationship

Information on investee companies and indirect investments in Mainland China are described in Notes 13(2) and 13(3).

(2) Significant related party transactions

A. Operating revenue:

	<u>2017</u>	<u>2016</u>
Sales of goods:		
-Subsidiaries		
MAXXIS (Taiwan) Trading CO., LTD.	\$ 4,073,337	\$ 1,485,040
CHENG SHIN RUBBER USA, INC.	3,264,383	2,891,576
Others	2,178,047	1,752,717
-Associates	73,125	196,986
Total	\$ 9,588,892	\$ 6,326,319

The Company's sales price to related parties is approximately the same as third parties. Credit term for export sales is the same as third parties, which is collected after 60 days ~ 90 days.

B. Purchases:

	2017	2016
Sales of goods:		
-Subsidiaries	\$ 367,951	\$ 156,770
-Associates	-	222
Total	<u>\$ 367,951</u>	<u>\$ 156,992</u>

The credit term for purchases from related parties is the same with third parties. Except for Maxxis (Thailand) is paid 30 days after the purchase, other payments are the same with third parties, which are 90 days after the purchase.

C. Property transactions:

(a) Proceeds from sales of property and gain (loss) on disposal:

	2017		2016	
	Gain (loss) on		Gain (loss) on	
	Sales amount	disposal	Sales amount	disposal
Subsidiaries	<u>\$ 776,631</u>	<u>\$ 23,575</u>	<u>\$ 766,139</u>	<u>\$ 201,725</u>

(b) Ending balance of receivables from sales of property:

	2017	2016
Subsidiaries	<u>\$ 159,912</u>	<u>\$ 154,324</u>

Abovementioned payments from sales of fixed property to related parties are collected 60~90 days after the sales of equipment.

D. Revenue from patent royalties (listed other income) and other receivables:

(a) Revenue from patent royalties:

	2017	2016
Subsidiaries	<u>\$ 533,677</u>	<u>\$ 556,672</u>

(b) Ending balance of royalty receivables from technology:

	December 31, 2017	December 31, 2016
Subsidiaries	<u>\$ 147,495</u>	<u>\$ 152,019</u>

Abovementioned royalty revenue for technology was calculated by applying the agreed upon ratio to net sales amounts, and payment was originally collected yearly and was changed to quarterly since 2014.

E. Interest income – endorsements/guarantees (listed other income) and other receivables:

(a) Interest income – endorsements/guarantees:

	2017	2016
Subsidiaries	<u>\$ 12,153</u>	<u>\$ 12,293</u>

(b) Ending balance of interest receivables from endorsements and guarantees:

	December 31, 2017	December 31, 2016
Subsidiaries	<u>\$ 7,031</u>	<u>\$ 4,640</u>

Abovementioned interest income from endorsements and guarantees was calculated by applying the agreed ratio to the amount guaranteed and payment was originally collected yearly but was changed to quarterly since 2014.

F. Revenue from commission ( listed other income) and other receivables:

(a) Revenue from commission:

	<u>2017</u>	<u>2016</u>
Subsidiaries	\$ <u>250,371</u>	\$ <u>261,362</u>

(b) Ending balance of receivables from commission:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries	\$ <u>49,263</u>	\$ <u>53,407</u>

Abovementioned commission revenue was determined at certain rate of sales amounts and payment was originally collected yearly but was changed to quarterly since 2014.

G. Revenue from trademark royalties (listed other income) and other receivables:

(a) revenue from trademark royalties:

	<u>2017</u>	<u>2016</u>
Subsidiaries	\$ <u>397,132</u>	\$ <u>400,740</u>

(b) Ending balance of receivables from trademark royalties:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ <u>81,289</u>	\$ <u>88,639</u>

Abovementioned revenue from trademark royalties was determined at certain rate of sales and was originally collected yearly but was changed to quarterly since 2014.

H. Revenue from per diem (listed other income) and other receivables:

(1) Revenue from per diem:

	<u>2017</u>	<u>2016</u>
Subsidiaries	\$ <u>10,482</u>	\$ <u>25,882</u>

(2) Ending balance of receivables from per diem:

	<u>2017</u>	<u>2016</u>
Subsidiaries	\$ <u>2,781</u>	\$ <u>5,738</u>

The aforementioned per diem income is based on agreed per diem rate multiplied by traveling days. Collection terms have been revised from yearly to quarterly since year 2014.

I. Accounts receivable:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Accounts receivable		
-Subsidiaries	\$ 1,621,586	\$ 1,284,204
-Associates	<u>26,630</u>	<u>33,832</u>
	\$ <u>1,648,216</u>	\$ <u>1,318,036</u>

J. Notes receivable:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Associates	\$ -	\$ <u>865</u>

K. Accounts payable:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries	\$ 34,883	\$ 19,683
Associates	<u>36</u>	<u>-</u>
	<u>\$ 34,919</u>	<u>\$ 19,683</u>

L. Other payables:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries	<u>\$ 137,584</u>	<u>\$ 78,781</u>

Abovementioned payments are advertisement expense and sponsorship to racing drivers paid by related parties on behalf of the Company.

M. Information about guarantees

As of December 31, 2017 and 2016, the Company and the financial institutions agreed that the Company's subsidiary may apply for loans within the following credit lines as stated in the letter of credit with a local branch of the aforementioned financial institutions. The Company will be responsible for the guarantee. Details is as follows:

<u>Guarantee</u>	<u>Guaranteed line of credit</u>		<u>Used amounts as of December 31, 2017</u>	
Subsidiaries	USD	690,800 thousand	USD	525,724 thousand
	THB	2,000,000 thousand	THB	2,000,000 thousand
	RMB	550,000 thousand	RMB	158,050 thousand
	INR	400,000 thousand	INR	11,630 thousand
<u>Guarantee</u>	<u>Guaranteed line of credit</u>		<u>Used amounts as of December 31, 2016</u>	
Subsidiaries	USD	755,000 thousand	USD	338,373 thousand
	THB	2,000,000 thousand	THB	1,400,000 thousand
	JPY	-	JPY	581,750 thousand
	EUR	-	EUR	4,424 thousand
	RMB	550,000 thousand	RMB	41,601 thousand

As of December 31, 2017 and 2016, the Company's endorsements/guarantees have not exceeded the limit.

(3) Key management compensation

	<u>Year ended December 31,</u> <u>2017</u>	<u>Year ended December 31,</u> <u>2016</u>
Salaries and other short-term employee benefits	\$ 252,190	\$ 395,674
Post-employment benefits	<u>3,858</u>	<u>4,472</u>
Total	<u>\$ 256,048</u>	<u>\$ 400,146</u>

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

<u>Pledged asset</u>	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Time deposits (shown as Other non-current assets)	<u>\$ 14,885</u>	<u>\$ 14,530</u>	Product liability insurance

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

Information about related parties' guarantees is provided in Note 7.

(2) Commitments

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Property, plant and equipment	\$ 276,414	\$ 59,927

B. Amount of letter of credit that has been issued but not yet used:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Amount of letter of credit that has been issued but not yet used	\$ 28,706	\$ -

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company's deferred tax assets and deferred tax liabilities by \$128,294 thousand and \$147,158 thousand, respectively, which will be adjusted in the first quarter of 2018.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Company monitors capital structure by using debt-equity ratio. The ratio is calculated as total liability divided by tangible equity. Total liability is calculated as 'total liability' as shown in the consolidated balance sheet. Tangible equity is calculated as 'total shareholders' equity' less 'intangible assets'.

During year ended December 31, 2016, the Company's strategy, which was unchanged from 2015, was to maintain the debt-equity ratio under 2 times. As of December 31, 2017 and 2016, the Company's debt-equity ratios were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total liabilities	\$ 38,278,383	\$ 35,325,743
Total equity	\$ 82,205,292	\$ 87,493,251
Less : Intangible assets	94,890	-
Tangible equity	\$ 82,110,402	\$ 87,493,251
Debt-equity ratio	46.62%	40.38%

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Company's financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable and related parties, other receivables (Other current assets) refundable deposits (Other non-current assets), short-term loans, accounts payable and related parties and other payables long-term borrowings, Bonds payable and guarantee deposits received (Other non-current liabilities) approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in

Note 12(3).

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The material financing activities are reviewed by the Board of Directors in accordance with procedures required by relevant regulations and internal control system. During the implementation of financing plans, the Board of Directors is assisted in its oversight role by the internal audit department. Internal audit undertakes both regular and exceptional reviews of risk management controls and procedures, and reports the results to the Board of Directors.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- ii. The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.
- iii. The Company's businesses involve some non-functional currency operations (the Company's functional currency: TWD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2017

(Foreign currency: functional currency)	Sensitivity Analysis					
	Foreign currency amount (In thousands)	Exchange rate	Book value (TWD in thousand)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:TWD	\$ 391,426	29.760	\$ 11,648,838	1%	\$ 116,488	\$ -
EUR:TWD	19,411	35.570	690,449	1%	6,904	-
JPY:TWD	1,611,207	0.264	42,681	1%	4,257	-
RMB:TWD	116,324	4.565	531,019	1%	5,310	-
GBP:TWD	6,409	40.110	257,065	1%	2,571	-
<u>Non-monetary items</u>						
USD:TWD	\$ 98,821	29.760	\$ 2,940,913	1%	\$ 5,070	\$ 24,339
EUR:TWD	10,568	35.570	375,904		2,991	768
JPY:TWD	483,945	0.264	127,858		1,279	-
RMB:TWD	124,107	4.565	566,548		5,665	-
CAD:TWD	30,662	23.705	726,843	1%	-	7,268
IDR:TWD	784,958,275	0.00223	1,750,457	1%	-	17,505
INR:TWD	4,383,113	0.46750	2,049,105	1%	-	20,491
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:TWD	\$ 25,745	32.260	\$ 766,171	1%	\$ 7,662	\$ -

December 31, 2016

	Sensitivity Analysis					
	Foreign currency amount (In thousands)	Exchange rate	Book value (TWD in thousand)	Degree of variation	Effect on profit or loss or Effect on other comprehensive income	
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:TWD	\$ 214,030	32.260	\$ 6,904,608	1%	\$ 69,046	\$ -
EUR:TWD	19,539	33.999	664,306	1%	6,643	-
THB:TWD	133,109	0.901	119,931	1%	1,199	-
JPY:TWD	759,802	0.275	208,946		2,089	
RMB:TWD	861,015	4.617	3,975,306	1%	39,753	-
GRP:TWD	4,582	39.706	181,933		18,189	
<u>Non-monetary items</u>						
USD:TWD	\$ 79,985	32.260	\$ 2,580,316	1%	\$ -	\$ 25,803
CAD:TWD	26,225	23.810	624,417	1%	-	6,244
IDR:TWD	967,983,901	0.00243	2,352,201	1%	-	23,522
INR:TWD	3,392,748	0.49970	1,695,356	1%	-	16,954
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:TWD	\$ 13,419	32.260	\$ 432,897	1%	\$ 4,329	\$ -

F. The exchange gain (loss) (including realized and unrealized) arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2017 and 2016, amounted to \$700,577 thousand and \$295,818 thousand, respectively.

Price risk

A. The Company is exposed to equity securities price risk because of investments held by the Company and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.

The Company's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity would have increased/decreased by \$1,274 thousand and \$1,243 thousand, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

A. The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. In addition, long-term ordinary corporate bonds issued at fixed rates are not influenced by variations in interest rates. During the years ended December 31, 2017 and 2016, the Company's borrowings at variable rate were denominated in the TWD.

B. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Limit on hedge is basically one-third of the corresponding currency in borrowing positions. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

C. At December 31, 2017 and 2016, if interest rates on TWD-denominated borrowings at that date had been 0.1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have been \$12,701 thousand and \$11,644 thousand lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to

the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as outstanding receivables and committed transactions.

- ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The ageing analysis of financial assets that were past due but not impaired is as follows Note 6(3) and 6(4):
- iv. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial assets in Note 6(3) and 6(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Company treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits, and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The table below analyses the Company's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative  
financial liabilities:

	Less than 90 days	Between 91 and 180 days	Between 181 and 365 days	Over 1 year	Total
December 31, 2017					
Accounts payable (including related parties)	\$1,348,090	\$ -	\$ -	\$ -	\$1,348,090
Other payables	1,973,366	-	198,107	145,330	2,316,803
Guarantee deposits received	-	-	-	7,364	7,364
Long-term borrowings	36,605	36,605	1,220,917	11,715,063	13,009,190
Bonds payable	-	-	2,104,250	17,208,300	19,312,550

Non-derivative  
financial liabilities:

	Less than 90 days	Between 91 and 180 days	Between 181 and 365 days	Over 1 year	Total
December 31, 2016					
Short-term borrowings	\$ 450,945	\$ -	\$ -	\$ -	\$ 450,945
Accounts payable (including related parties)	977,641	-	-	-	977,641
Other payables	1,909,782	-	327,098	324,446	2,561,326
Guarantee deposits received	-	-	-	7,860	7,860
Long-term borrowings	208,190	206,229	2,199,271	11,735,464	14,349,154
Bonds payable	-	-	2,061,600	11,988,100	14,049,700

Derivative financial liabilities:

	Less than 90 days	Between 91 and 180 days	Between 181 and 365 days	Over 1 year	Total
December 31, 2017					
Forward exchange contracts	\$ 408	\$ -	\$ -	\$ -	\$ 408

(3) Fair value information

- A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2)A. Details of the fair value of the Company's investment property measured at cost are provided in Note 6(8).
- B. The different levels that the inputs to valuation techniques are used to measure fair value of



interest rate swap contracts, the Company adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.

E. For the years ended December 31, 2017 and 2016, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2017 and 2016, there was no transfer into or out from Level 3.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.

D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 4.

E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: Please refer to table 5.

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

G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 6.

H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: Please refer to table 7.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(10), 6(21) and 12(2).

J. Significant inter-company transactions during the reporting periods: Please refer to table 8.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 9.

#### (3) Information on investments in Mainland China

A. Basic information: Please refer to table 10.

B. Ceiling on investments in Mainland China: Please refer to table 10.

C. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 12.

Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area for the year ended December 31, 2017: Please refer to table 6, 7 and 8.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Loans to others

For the year ended December 31, 2017

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 1

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31,		Balance at December 31, 2017	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts		Limit on loans granted to a single party (Note 2)	Ceiling on total loans granted (Note 3)	Footnote
					2017	2017							Item	Value			
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	\$ 4,576,000	\$ 3,549,240	\$ 3,221,109	3.446%-4.75%	Note 4	\$ -	- Operating capital	- None	\$ -	4,683,900	\$ 7,806,499	Note 6	
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Other receivables	Yes	1,830,400	1,824,000	1,573,200	4.75%	Note 4	-	- Operating capital	- None	-	4,683,900	7,806,499	Note 6	
1	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN (XIAMEN) INTL. AUTOMOBILE CULTURE CENTER CO., LTD.	Other receivables	Yes	366,080	228,000	136,800	6.65%	Note 4	-	- Operating capital	- None	-	4,683,900	7,806,499	Note 6	
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN (XIAMEN) INTL. AUTOMOBILE CULTURE CENTER CO., LTD.	Other receivables	Yes	1,824,000	1,824,000	1,322,400	4.75%	Note 4	-	- Operating capital	- None	-	7,493,854	1,489,756	Note 6	
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	916,800	912,000	232,560	4.75%	Note 4	-	- Operating capital	- None	-	7,493,854	12,486,756	Note 6	
2	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	XIAMEN ESATE CO., LTD.	Other receivables	Yes	48,400	456,000	364,800	4.75%	Note 4	-	- Operating capital	- None	-	7,493,854	12,489,756	Note 6	
3	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Other receivables	Yes	3,348,600	2,736,000	1,732,800	4.75%	Note 4	-	- Operating capital	- None	-	13,748,167	222,913,611	Note 6	
4	CHENG SHIN LOGISTIC (XIAMEN) IND., LTD.	CHIN CHOU CHENG SHIN ENTERPRISE CO., LTD.	Other receivables	Yes	9,512	9,120	4,560	4.35%	Note 4	-	- Operating capital	- None	-	263,282	438,803	Note 6	

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

(1) The Company is '0'.

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

Note 2: Limit on loans granted by CHENG SHIN RUBBER (XIAMEN) IND., LTD., CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD., XIAMEN CHENG SHIN ENTERPRISE CO., LTD. and CHEN SHIN LOGISTIC (XIAMEN) CO., LTD. to a single party is 60% of the net assets of CHENG SHIN RUBBER (XIAMEN) ENTERPRISE CO., LTD.

Note 3: Limit on loans granted by CHENG SHIN RUBBER (XIAMEN) IND., LTD., CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD. and CHEN SHIN LOGISTIC (XIAMEN) CO., LTD. to a single party is 100% of the net assets of CHENG SHIN RUBBER (XIAMEN) ENTERPRISE CO., LTD.

Note 4: Fill in purpose of loan when nature of loan is for short-term financing. The transaction was completed through the trust loans signed with financial institutions in Mainland China.

Note 5: The amount of ending balance was equal to the limit on loans as approved by the Board of Directors.

Note 6: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Provision of endorsements and guarantees to others  
For the year ended December 31, 2017

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 2

Number (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed	Relationship with the endorser/ guarantor	Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of December 31, 2017	Outstanding endorsement/ guarantee amount at December 31, 2017	Actual amount drawn down	Amount of endorsements / guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided	Provision of		Footnote
											endorsements/ guarantees by parent company to subsidiary	endorsements/ guarantees by parent company Mainland China	
0	Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Sub- subsidiary	\$ 41,102,646	\$ 8,206,175	\$ 5,258,750	\$ 4,119,780	\$ -	6.40	\$ 57,543,704	Y	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Sub- subsidiary	41,102,646	1,377,860	297,700	107,172	-	0.36	57,543,704	Y	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	Sub- subsidiary	41,102,646	4,384,100	2,381,600	582,996	-	2.90	57,543,704	Y	Y	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Sub- subsidiary	41,102,646	1,409,175	1,339,650	595,400	-	1.63	57,543,704	Y	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	Subsidiary	41,102,646	7,455,122	7,324,826	6,846,553	-	8.91	57,543,704	Y	N	Note 2, Note 5
0	Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS International Indonesia.	Subsidiary	41,102,646	6,025,980	5,983,770	5,239,520	-	7.28	57,543,704	Y	N	Note 2, Note 5
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	XIAMEN ESATE CO., LTD.	Note 3 (1)	18,330,889	2,521,200	2,508,000	720,710	-	10.95	22,913,611	N	Y	Note 4, Note 5

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

(1) The Company is '0'.

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

Note 2: Ceiling on the Company's total endorsements/guarantees to others is 70% of the Company's current net assets.

Limit on the Company's endorsements/guarantees to a single party is 20% of the Company's net assets.

Limit on the Company's endorsements/guarantees to a foreign single affiliate company is 50% of the Company's net assets.

Note 3: Relationship between the endorser/guarantor and the Company is classified into the following two categories:

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

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

Note 4: Limit on the Company's endorsements/guarantees provided to others is 100% of the Company's net assets.

Limit on total endorsements provided to a single party is 80% of the Company's net assets.

Note 5: Outstanding endorsement/guarantee amount and draw down amount are translated at the spot exchange rates prevailing at December 31, 2017.

\$ 57,543,704

\$ 16,441,058

\$ 41,102,646

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

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

December 31, 2017

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer	General ledger account	As of December 31, 2017			Footnote
				Number of shares/ units	Book value	Ownership (%)	
Cheng Shin Rubber Ind. Co., Ltd.	Other fund	-	Current available-for-sale financial assets	-	\$ 41,670	-	41,670 Note 2
Cheng Shin Rubber Ind. Co., Ltd.	Other ordinary shares	-	Current available-for-sale financial assets	-	27,518	-	27,518 Note 2
Cheng Shin Rubber Ind. Co., Ltd.	Other ordinary shares	-	Non-current available-for-sale financial assets	-	58,187	-	58,187 Note 2

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

Note 2: Other marketable securities do not exceed 5% of the account.

CHENG SHIN RUBBER IND. CO., LTD.

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

For the year ended December 31, 2017

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship with the investor (Note 2)	Balance as at January 1, 2017		Addition (Note 3)	Disposal (Note 3)	Balance as at December 31, 2017			
					Number of shares	Amount			Number of shares	Amount	Number of shares	Amount
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	Investments accounted for using equity method	Maxxis Rubber India Private Limited	Subsidiary	369,997,000	\$ 1,695,356	179,998,541	\$ 847,866	-	\$ -	549,995,541	\$ 2,049,105

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

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

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

Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than NT\$10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.

Note 5: Gain and loss on investment accounted for using equity method was included in the balance as at December 31, 2017.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

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

For the year ended December 31, 2017

Table 5

Expressed in thousands of NTD  
(Except as otherwise indicated)

If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below:

Real estate acquired by	Real estate acquired	Date of the event	Transaction amount	Status of payment	Counterparty	Relationship with the counterparty	Original owner who sold the real estate to the counterparty	Relationship between the original owner and the acquirer	Date of the original transaction	Amount	Basis or reference used in setting the price	Reason for acquisition of real estate and status of the real estate	Other commitments
CHENG SHIN RUBBER (ZHANGZHOU) IND. CO., LTD.	Plant construction phase II	2017/9/25	\$ 400,925	\$ 151,341	Zun Yi Jian Gong (Group) CO., LTD.	Third party	-	-	-	-	Contracts	Operational needs	None

Note 1: The appraisal result should be presented in the 'Basis or reference used in setting the price' column if the real estate acquired should be appraised pursuant to the regulations.

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

Note 3: Date of the event referred to herein is the date of contract signing date, date of payment, date of execution of a trading order, date of title transfer, date of board resolution, or other date that can confirm the counterparty and the monetary amount of the transaction, whichever is earlier.

CHENG SHIN RUBBER IND. CO., LTD.

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

For the year ended December 31, 2017

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction terms compared to third party transactions (Note 1)			Notes/accounts receivable (payable)	Footnote (Note 2)
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Unit price	Credit term	Balance		
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Subsidiary	(sales) (\$ 3,264,383)	( 16.79)	Collect within 90 days after shipment of goods	Same	Same	\$ 789,260	27.46%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Subsidiary	(sales) ( 1,424,286)	( 7.33)	Collect within 90 days after shipment of goods	Same	Same	363,079	12.63%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Sub-subsidiary	(sales) ( 417,892)	( 2.15)	Collect within 60 days after shipment of goods	Same	Same	80,389	2.80%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Sub-subsidiary	(sales) ( 165,807)	( 0.85)	Collect within 60 days after shipment of goods	Same	Same	13,421	0.47%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Sub-subsidiary	(sales) ( 107,567)	( 0.55)	Collect within 60 days after shipment of goods	Same	Same	44,409	1.55%	Note 4
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	Subsidiary	(sales) ( 4,073,337)	( 20.96)	Collect within 30 days	Same	Same	315,091	10.96%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	TIANJIN TAFENG RUBBER IND CO., LTD.	Same ultimate parent	(sales) ( 155,729)	( 0.80)	Collect within 60-90 days after shipment of goods	Same	Same	31,624	1.42%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) ( 751,134)	( 3.88)	Collect within 60-90 days after shipment of goods	Same	Same	283,284	12.73%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Same ultimate parent	(sales) ( 562,327)	( 2.91)	Collect within 60-90 days after shipment of goods	Same	Same	138,767	6.23%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent	(sales) ( 119,543)	( 0.62)	Collect within 60-90 days after shipment of goods	Same	Same	29,864	1.34%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Cheng Shin Holland B.V.	Associates	(sales) ( 187,957)	( 0.97)	Collect within 60-90 days after shipment of goods	Same	Same	55,437	2.49%	Note 4
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Cheng Shin Rubber Ind. Co., Ltd.	Ultimate parent company	(sales) ( 145,729)	( 0.75)	Collect within 60 days after shipment of goods	Same	Same	22,174	1.00%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent	(sales) ( 1,818,454)	( 43.61)	Collect within 60-90 days after shipment of goods	Same	Same	305,482	43.44%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	Same ultimate parent	(sales) ( 548,592)	( 13.16)	Collect within 60-90 days after shipment of goods	Same	Same	104,097	14.80%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	TIANJIN TAFENG RUBBER IND CO., LTD.	Same ultimate parent	(sales) ( 107,016)	( 2.57)	Collect within 60-90 days after shipment of goods	Same	Same	20,923	2.98%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Same ultimate parent	(sales) ( 135,949)	( 3.26)	Collect within 60-90 days after shipment of goods	Same	Same	19,641	2.79%	Note 4
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) ( 219,836)	( 5.27)	Collect within 60-90 days after shipment of goods	Same	Same	40,328	5.73%	Note 4
CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent	(sales) ( 372,172)	( 4.48)	Collect within 60-90 days after shipment of goods	Same	Same	43,576	49.08%	Note 4
CHENG SHIN LOGISTIC (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent	(sales) (\$ 188,925)	( 37.25)	Collect within 60-90 days after shipment of goods	Same	Same	\$ 17,658	14.35%	Note 4
CHENG SHIN LOGISTIC (XIAMEN) CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	Same ultimate parent	(sales) ( 107,465)	( 21.19)	Collect within 60-90 days after shipment of goods	Same	Same	10,161	8.25%	Note 4
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	CHENG SHIN RUBBER CANADA, INC.	Same ultimate parent	(sales) ( 362,099)	( 1.59)	Collect within 60-90 days after shipment of goods	Same	Same	47,369	1.10%	Note 4

CHENG SHIN RUBBER IND. CO., LTD.

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more  
For the year ended December 31, 2017

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	Footnote (Note 2)	Differences in transaction terms compared to third party transactions (Note 1)	
												Notes/accounts receivable (payable)	Notes/accounts receivable (payable)
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) ( 36.27)	( 155,402)	( 36.27)	Collect within 60-90 days after shipment of goods	Same	Same	25,640	39.42%	Note 4		
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	TOYO TIRE & RUBBER CO., LTD	Associates	(sales) ( 27.33)	( 117,093)	( 27.33)	Collect within 60-90 days after shipment of goods	Same	Same	14,843	22.82%			
CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) ( 3.85)	( 279,482)	( 3.85)	Collect within 60-90 days after shipment of goods	Same	Same	90,280	19.92%	Note 4		
Cheng Shin Rubber (Vietnam) IND Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Same ultimate parent	(sales) ( 4.02)	( 209,074)	( 4.02)	Collect within 60-90 days after shipment of goods	Same	Same	8,273	1.36%	Note 4		
Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Cheng Shin Rubber Ind. Co., Ltd.	Ultimate parent company	(sales) ( 2.44)	( 127,057)	( 2.44)	Collect within 30 days after shipment of goods	Same	Same	3,806	0.62%	Note 4		
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent	(sales) ( 7.69)	( 1,103,342)	( 7.69)	Collect within 60-90 days after shipment of goods	Same	Same	224,445	14.31%	Note 4		
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales) ( 0.87)	( 124,214)	( 0.87)	Collect within 60-90 days after shipment of goods	Same	Same	43,204	2.75%	Note 4		
MAXXIS International (Thailand) Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Same ultimate parent	(sales) ( 1.36)	( 195,469)	( 1.36)	Collect within 60-90 days after shipment of goods	Same	Same	9,593	0.61%	Note 4		

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

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

December 31, 2017

Table 7

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017	Turnover rate	Overdue receivables		Allowance for doubtful accounts
					Amount	Action taken	
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Subsidiary (Note 5)	\$ 789,260	4.87	-	\$ 789,816	-
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Subsidiary (Note 5)	363,319	Note 4	-	214,117	-
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Sub-subsiary (Note 5)	241,985	Note 3	-	110,901	-
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Sub-subsiary (Note 5)	121,109	Note 3	-	64,601	-
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	Subsidiary (Note 5)	316,296	Note 4	-	316,296	-
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent (Note 5)	283,284	3.67	-	168,328	-
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	Same ultimate parent (Note 5)	202,105	Note 4	-	60,023	-
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	Same ultimate parent (Note 5)	307,442	Note 4	-	290,066	-
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD	Same ultimate parent (Note 5)	104,097	4.34	-	104,097	-
MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	Same ultimate parent (Note 5)	224,445	5.60	-	221,575	-

Note 1: Subsequent collection is the amount collected as of March 16, 2018.

Note 2: Paid-in capital referred to herein is the paid-in capital of parent company.

Note 3: The amount comprises accounts receivable, commission receivable, endorsement/guarantees receivable, patent royalties receivable, royalties receivable for trademark and other receivables and thus, the turnover rate is not calculated

Note 4: The amount comprises accounts receivable and other receivables and thus, the turnover rate is not calculated.

Note 5: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD.

Significant inter-company transactions during the reporting periods

For the year ended December 31, 2017

Table 8

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Amount (Note 4)	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	1	Sales	\$ 3,264,383	Collect within 90 days after shipment of goods	2.91%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	1	Accounts receivable	789,260	Collect within 90 days after shipment of goods	0.44%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	1	Sales	1,424,286	Collect within 90 days after shipment of goods	1.27%
0	Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	1	Accounts receivable	363,079	Collect within 90 days after shipment of goods	0.20%
0	Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	1	Sales	417,892	Collect within 60 days after shipment of goods	0.37%
0	Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	1	Sales of fixed assets and other assets	439,031	Collect within 90 days after sales of equipment	0.39%
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	1	Sales	4,073,337	The term is 30 days after monthly billing.	3.63%
0	Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	1	Accounts receivable	315,091	The term is 30 days after monthly billing.	0.18%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	751,134	Collect within 60~90 days after shipment of goods	0.67%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Accounts receivable	283,284	Collect within 60~90 days after shipment of goods	0.16%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Sales	562,327	Collect within 60~90 days after shipment of goods	0.50%
1	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	1,732,800	Pay interest quarterly	0.97%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Sales	1,818,454	Collect within 60~90 days after shipment of goods	1.62%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Accounts receivable	305,482	Collect within 60~90 days after shipment of goods	0.17%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	3	Sales	548,592	Collect within 60~90 days after shipment of goods	0.49%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	3,221,109	Pay interest quarterly	1.80%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Other receivables	1,573,200	Pay interest quarterly	0.88%
2	XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	219,836	Collect within 60~90 days after shipment of goods	0.20%
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Other receivables	232,560	Pay interest quarterly	0.13%

CHENG SHIN RUBBER IND. CO., LTD.

Significant inter-company transactions during the reporting periods

For the year ended December 31, 2017

Table 8

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount (Note 4)	Transaction terms	
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	3	Other receivables	1,322,400	Pay interest quarterly	0.74%
3	CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	XIAMEN ESTATE CO., LTD.	3	Other receivables	364,800	Pay interest quarterly	0.20%
4	CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	CHENG SHIN RUBBER (XIAMEN) IND., LTD.	3	Sales	372,172	Collect within 60~90 days after shipment of goods	0.33%
5	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	CHENG SHIN RUBBER CANADA, INC.	3	Sales	362,099	Collect within 60~90 days after shipment of goods	0.32%
6	CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	3	Sales	279,482	Collect within 60~90 days after shipment of goods	0.25%
7	MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	3	Sales	1,103,342	Collect within 60~90 days after shipment of goods	0.98%
7	MAXXIS International (Thailand) Co., Ltd.	CHENG SHIN RUBBER USA, INC.	3	Accounts receivable	224,445	Collect within 60~90 days after shipment of goods	0.13%
8	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	3	Sales	209,074	Collect within 60~90 days after shipment of goods	0.19%

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

(1) Parent company is '0'.

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

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

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

Note 4: Transaction amounts account for at least NT\$200 million.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investees  
For the year ended December 31, 2017

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017		Net profit (loss) of the investee for the year ended December 31, 2017	Investment income(loss) recognised by the Company for the year ended December 31, 2017 (Note 1)	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)			
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS International Co., Ltd.	Cayman Islands	Holding company	\$ 912,218	\$ 912,218	35,050,000	100.00	\$ 41,446,874	\$ 1,463,847	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	CST Trading Ltd.	British Virgin Islands	Holding company	2,103,073	2,103,073	72,900,000	100.00	25,175,906	3,471,894	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS Trading Ltd.	British Virgin Islands	Holding company	7,669,780	7,669,780	237,811,720	100.00	9,890,087	245,429	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER USA, INC.	U.S.A	Import and export of tires	551,820	551,820	1,800,000	100.00	2,433,930	293,212	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	CHENG SHIN RUBBER CANADA, INC.	Canada	Import and export of tires	32,950	32,950	1,000,000	100.00	726,855	183,454	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	CIAO SHIN CO., LTD.	Taiwan	Investment in various business	-	97,000	-	-	-	19,528	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	NEW PACIFIC INDUSTRY COMPANY LIMITED	Taiwan	Processing and sales of various anti-vibration rubber and hardware	50,001	50,001	5,000,000	50.00	154,347	8,548	Note 2
Cheng Shin Rubber Ind. Co., Ltd.	MAXXIS Tech Center Europe B.V.	Netherlands	Technical centre	41,260	41,260	1,000,000	100.00	60,157	3,914	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Holland B.V.	Netherlands	Import and export of tires	23,162	23,162	9,708	30.00	16,673	11,333	Note 2
Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS INTERNATIONAL INDONESIA	Indonesia	Production and sales of various types of tires	2,461,355	2,461,355	79,997,000	100.00	17,204,849	( 432,183)	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis Rubber India Private Limited	India	Production and sales of various types of tires	2,673,961	1,826,095	549,995,541	100.00	2,049,105	( 463,182)	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	Maxxis(Taiwan) Trading Co., LTD.	Taiwan	Wholesale and retail of tires	100,000	100,000	10,000,000	100.00	424,875	305,209	Subsidiary Note 3
Cheng Shin Rubber Ind. Co., Ltd.	PT MAXXIS TRADING INDONESIA	India	Large-amount trading of vehicles parts and accessories	30,235	-	9,990	100.00	29,968	( 306)	Subsidiary Note 3
MAXXIS International Co., Ltd.	MAXXIS International (HK) Ltd.	Hong Kong	Holding company	-	-	226,801,983	100.00	32,430,634	1,597,595	Subsidiary Note 3
CST Trading Ltd.	Cheng Shin International (HK) Ltd.	Hong Kong	Holding company	-	-	246,767,840	100.00	25,020,939	3,429,110	Subsidiary Note 3

Table 9

Expressed in thousands of NTD  
(Except as otherwise indicated)

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investees

For the year ended December 31, 2017

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 9

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017		Ownership (%)	Book value	Net profit (loss) of the investee for the year ended December 31, 2017	Investment income(loss) recognised by the Company for the year ended December 31, 2017 (Note 1)	Footnote
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	2017					
MAXXIS Trading Ltd.	MAXXIS Holdings (BVI) Co., Ltd.	British Virgin Islands	Import and export of tires	7,669,780	7,669,780	237,811,720	100.00	10,345,830	244,596	244,596	Sub-subsidiary Note 3	
MAXXIS Holdings (BVI) Co., Ltd.	MAXXIS International (Thailand) Co., Ltd.	Thailand	Production and sales of truck and automobile tires	5,724,372	5,724,372	65,000,000	100.00	7,772,878	(431,892)	(402,455)	Sub-subsidiary Note 3	
MAXXIS Holdings (BVI) Co., Ltd.	Cheng Shin Rubber (Vietnam) Co., Ltd.	Vietnam	Production and sales of various types of tires	1,945,408	1,945,408	62,000,000	100.00	2,569,911	676,790	679,796	Sub-subsidiary Note 3	

Note 1: Including investment income (loss) used to offset against sidestream and upstream transactions.

Note 2: Investee companies are accounted for under the equity method.

Note 3: The transactions were eliminated when preparing the consolidated financial statements.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2017

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 10

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China for the year ended December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
CHENG SHIN RUBBER (XIAMEN) IND., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	\$ 5,208,000	2	\$ 910,834	\$ -	\$ 910,834	\$ 1,064,405	100.00	\$ 1,060,584	\$ 22,913,611	\$ 16,957,236	(Note 2、3、 5、6、7)
CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	6,696,000	2	2,385,506	-	2,385,506	2,925,218	100.00	2,955,143	22,996,993	17,466,059	(Note 2、4、 6、8)
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	Plastic machinery, molds and its accessory products	252,960	2	68,602	-	68,602	84,640	50.00	42,320	347,061	368,346	(Note 6、8)
CHENG SHIN TIRE & RUBBER (CHONGQING) CO., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	2,976,000	2	-	-	-	1,504,767	100.00	1,497,916	5,791,734	753,758	(Note 2、4、 6、8)
KUNSHAN MAXXIS TIRE CO., LTD	Retail of accessories for rubber tires	22,825	2	-	-	-	( 472)	100.00	( 472)	22,087	-	(Note 6、8)
TIANJIN TAFENG RUBBER IND CO., LTD.	A. Cover and tubes of tires and cover and tubes of bicycle tires B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	535,680	2	-	-	-	( 213,203)	100.00	( 21,203)	1,599,675	757,407	(Note 6、7)
CHENG SHIN PETREL TIRE (XIAMEN) CO., LTD.	A. Radial tire and other various tire products B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	3,868,800	2	-	-	-	145,219	100.00	145,219	12,501,351	3,597,249	(Note 2、3、 6、7)

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2017

Table 10

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China for the year ended December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
XIAMEN CHENG SHIN ENTERPRISE CO., LTD.	A. Radial tire and other various tire products B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	\$ 1,339,200	2	-	-	\$ -	\$ 536,748	100.00	\$ 541,490	\$ 7,806,499	\$ 4,707,620	(Note 2, 6, 7)
CHENG SHIN (XIAMEN) INTL AUTOMOBILE CULTURE CENTER CO., LTD	A. Research, development and testing of tires and automobiles accessory products and display of related products B. Management of racing tracks	595,200	2	-	-	( 76,160)	( 76,160)	100.00	( 76,160)	390,409	-	(Note 6)
CHIN CHOU CHENG SHIN ENTERPRISE CO., LTD.	Distribution of rubber and components of tires	159,775	2	-	-	( 11,332)	( 11,332)	95.00	( 10,765)	138,759	-	(Note 6, 7)
CHENG SHIN LOGISTIC (XIAMEN) CO., LTD.	International container transportation business	65,790	2	-	-	-	35,099	49.00	17,199	215,013	-	(Note 6, 7)
CHENG SHIN RUBBER (ZHANGZHOU) IND CO., LTD.	A. Tires and tubes B. Reclaimed rubber, adhesive, tape and other rubber products C. Plastic machinery, molds and its accessory products	4,386,150	2	-	-	-	288,831	100.00	288,831	5,278,807	452,779	(Note 5, 6, 7)

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Information on investments in Mainland China

For the year ended December 31, 2017

Table 10

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017	Accumulated amount of remittance from Taiwan to Mainland China for the year ended December 31, 2017	Net income of investee as of December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017	Footnote
XIAMEN ES-ATE CO., LTD.	Construction and trading of employees' housing	\$ 1,506,450	2	\$ -	\$ -	\$ -	(\$ 32,055)	100.00	\$ 32,055	\$ 1,451,266	\$ -	(Note 6, 7)

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

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

Note 2: Including investment income (loss) used to offset against sidestream and upstream transactions.

Note 3: The Company and Cheng Shin Rubber (Xiamen) Ind., Ltd. directly and indirectly holds 60% and 40% of the share ownership in Cheng Shin Petrel Tire (Xiamen) Co., Ltd., respectively.

Note 4: The Company and Cheng Shin Tire & Rubber (China) Co., Ltd. directly and indirectly holds 30% and 70% of share ownership in Cheng Shin Tire & Rubber (Chongqing) Co., Ltd., respectively.

Note 5: Cheng Shin Rubber (Xiamen) Ind., Ltd. and MAXXIS International (HK) Ltd. directly and indirectly holds 75% and 25% of share ownership in Cheng Shin Rubber (Zhangzhou) Ind Co., Ltd, respectively.

Note 6: Paid-in capital was converted at the exchange rate of NTD 29.76: USD 1 and NTD 4.565: RMB 1 prevailing on December 31, 2017.

Note 7: Investment income (loss) was recognised based on the financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.

Note 8: Investment income (loss) was recognised based on the financial statements that are audited and attested by R.O.C. parent company's CPA.

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES

Ceiling on investments in Mainland China

For the year ended December 31, 2017

Table 9

Expressed in thousands of NTD  
(Except as otherwise indicated)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 (Note 1)	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 1)		Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 2)
		China as of December 31, 2017 (Note 1)	Investment Commission of MOEA (Note 2)	
Cheng Shin Rubber Ind. Co., Ltd.	\$ 3,657,504	\$ 20,025,504	\$ -	

Note 1: Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 was USD\$122,900 thousand and the total investment amount approved by the Investment Commission, MOEA, was USD\$672,900 thousand.

Note 2: According to 'Regulations Governing the Permission of Investment or Technical Cooperation in Mainland Area', the Company acquired the operations headquarters certification issued by the Industrial Development Bureau, Ministry of Economic Affairs, R.O.C. and thus, the investments amount in Mainland China is unlimited.

6.6 Facts regarding the Company and its affiliated enterprises which have developed hard-up financial standing in recent year and the period as of the Annual Report date: Nil

## VII. Analysis for Financial Condition and Operating Results and Risk Management

### 7.1 Comparative analysis of financial condition

in NT\$1000

Item \ Year	2017	2016	Difference	
			Amount	%
Current assets	\$66,663,624	\$58,153,934	\$8,509,690	14.63
Real property, plants, and equipment	105,007,683	103,156,284	1,851,399	1.79
Intangible assets	0	0	0	0
Other assets	7,412,948	6,854,508	558,440	8.15
Total assets	179,084,255	168,164,726	10,919,529	6.49
Current liabilities	42,078,364	39,786,698	2,291,666	5.76
Non-current liabilities	54,114,588	40,108,640	14,005,948	34.92
Total liabilities	96,192,952	79,895,338	16,297,614	20.40
Equity	32,414,155	32,414,155	0	0
Capital reserve	52,576	52,576	0	0
Retained earnings	54,168,622	58,334,342	(4,165,720)	-7.14
Other equity	(4,430,061)	(3,307,822)	(1,122,239)	33.93
Treasury stock	-	-	-	-
Non-controlling interest	686,011	776,137	(90,126)	-11.61
Total equity	82,891,303	88,269,388	(5,378,085)	-6.09

Analysis if difference reaches 20% or more and amount reaches NT\$10 million:

Increase in non-current liabilities: due to an increase in corporate bonds and long-term borrowing.

Decrease in other equity: due to an increase in conversion gains from foreign currencies.

## 7.2 Analysis of operating results

### (1) Analysis of financial performance

in NT\$1000

Item \ Year	2017	2016	Amount of increase (decrease)	Change (%)
Operating revenue	112,309,166	117,387,519	(5,078,353)	-4.33%
Operating costs	(86,631,096)	(81,098,410)	(5,532,686)	6.82%
Gross profit	25,678,070	36,289,109	(10,611,039)	-29.24%
Operating expenses	(17,279,578)	(17,617,696)	338,118	-1.92%
Operating profit	8,398,492	18,671,413	(10,272,921)	-55.02%
Revenue and expense outside operation	(16,623)	(776,427)	759,804	-97.86%
Income before income tax	8,381,869	17,894,986	(9,513,117)	-53.16%
Income tax expense	(2,779,844)	(4,548,505)	1,768,661	-38.88%
Net profit	5,602,025	13,346,481	(7,744,456)	-58.03%
Other consolidated net profit (loss) after tax	(1,255,864)	(5,305,431)	4,049,567	-76.33%
Consolidated profit	4,346,161	8,041,050	(3,694,889)	-45.95%

Analysis if difference reaches 20% or more and amount reaches NT\$10 million:

- (1) Decrease in gross profit: due to a decrease in operating revenue and an increase in cost of goods sold.
- (2) Decrease in revenue and expense outside operation: due to a decrease in net foreign exchange loss and loss on disposal of fixed assets.
- (3) Increase in other consolidated net profit (loss) after tax: due to a decrease in conversion gains from converting financial statements for overseas subsidiaries.
- (4) Decrease in consolidated profit: due to a decrease in other consolidated net profit (loss) after tax.

- (2) Analysis of change to gross profit: Decrease in gross profit is largely due to a drop in operating revenue and an increase in cost of goods sold.
- (3) The Company's 2017 revenue was 4.33% lower than 2016, with no material changes to core business scope.

Action Plan: Progress made in plant construction in India and Indonesia will help the group to expand its production capacity in response to a gradually recovering global market demand in the hopes of expanding our market share.

### 7.3 Cash flow

#### (1) Liquidity analysis for the most recent two years

Item \ Year	2017	2016	Percentage of change
Cash Flow Ratio (%)	21.15	68.53	-69.14%
Cash Flow Adequacy Ratio (%)	101.61	117.44	-13.48%
Cash Reinvestment Ratio (%)	-0.37	8.54	-104.33%
Analysis of percentage of change: (if fluctuation reaches 20% or more):			
(1) Decrease in cash flow ratio: due to a decrease in net cash flow from operating activities.			
(2) Decrease in cash reinvestment ratio: due to decrease in net cash flow from operating activities and an increase in gross fixed assets.			

#### (2) Cash flow analysis for the coming year

Cash balance amount at the beginning of the year (1)	Net cash provided by operating activities (2)	Projected annual cash outflow (3)	Projected cash balance (1)+(2)-(3)	Measures for managing cash deficit	
				Investment plan	Financing plan
\$30,923,979	\$18,276,222	\$19,907,909	\$29,292,292	-	-
<p>1. Change in projected cash flow for the next year:</p> <p>Operations: The group's steady growth in revenues is expected.</p> <p>Investments: The group continues to invest in overseas subsidiaries and to upgrade obsolete equipment.</p> <p>Financing: Primarily payment of cash dividends and repaying loans and corporate bonds.</p> <p>2. Measures for managing cash deficit and liquidity analysis: N/A.</p>					

### 7.4 Impact of major capital expenditure over the latest year on financial operations

#### (1) Status of major capital expenditure and source of funds

in NT\$1,000

Plan	Actual or projected source of funds	Actual or projected completion date	Funds required Total amount	Actual or projected capital expenditure status	
				2017	2018
Purchase and upgrade of equipment	Bank loans, corporate bonds, and company fund	2017	\$13,923,156	\$13,923,156	-
Purchase and upgrade of equipment	Bank loans and company fund	2018	\$13,749,082	-	\$13,749,082

(2) Projected benefits:

1. Primarily a potential expansion of daily production capacity for tires.

2. Analysis of other projected benefits:

12 manufacturing factories around the globe with continued investments, expanded production capacity and increased market share in the global tire industry.

7.5 Reinvestment policy over the latest year and major reasons for profit or loss; plan for improvement and investment plan for the coming year:

(1) The Company's reinvestment policy considers long-term investment as its priority. Subsidiaries with production functions are directly or indirectly 100% owned to strengthen roots in the local market. Subsidiaries with marketing functions are likewise directly invested or jointly incorporated with our strategic partners to strengthen local sales networks. With the exception of plants in India and Indonesia, which just began production and caused losses, our other key subsidiaries have been profitable over the past year.

(2) Investment plan for the upcoming year: Our plants in India and Indonesia began production in August and December 2017 with the current aim to raise capacity utilization. Cheng Shin Rubber (Vietnam) is building a new bike tire plant.

7.6 Analysis and evaluation of risk factors

(1) Impact of interest rate and exchange rate fluctuation and inflation on the Company's profitability over the latest year and as of the date of the annual report; future action plan:

Impact on:

1. Interest rate fluctuation

In 2017, the U.S. Federal Reserve raised the interest rates three times and it is expected that the interest rates will be raised three to four times. Taiwan's Central Bank has maintained the interest rate since its downward adjustment in June 2016. However, the LIBOR has been going up, causing an increase in costs of US dollar loans. The New Taiwan Dollar holds a relatively lower interest rate, making it easy for the company to raise capital, save interest, or issue ordinary corporate bonds with a fixed interest rate to satisfy the needs for long-term capital. In the future, we will closely monitor any changes in the interest rate and adopt necessary hedging strategies.

2. Exchange rate fluctuation

As a group operating internationally, the financial reports of our overseas subsidiaries are denominated in local currencies. As a result, the group is exposed to exchange rate risks arising from various types of currencies. The group consistently monitors exchange rate fluctuations. Any shifts in political or economic environments in the invested countries may result in the fluctuation in the exchange rate between the reference currency of those subsidiaries and the

New Taiwan Dollar.

The group's marketing and procurement activities are mostly done in RMB, U.S. Dollars, New Taiwan Dollars and Thai Baht. Given their similar exchange rate ratios, exchange rate fluctuation risk is hedged. Exchange rate risk incurred from overseas investment derives mostly from RMB, US Dollar and Thai Baht. Debt positions acquired from facility expansion are mostly in US Dollars, RMB, Japanese Yen and Thai Baht. In addition, there are exchange conversion gains and losses denominated in the Indonesian Rupiah and Indian Rupees due to the construction of plants in Indonesia and India.

### 3. Inflation

In light of the uncertainty in global economic forecast, the Company is not in a position to predict for inflation or contraction. Since the tire products of the Company are consumer products whose raw material prices and market demands are moderately or highly volatile to inflation or contraction, the global economic environment will have an impact on the Company's sales. Nonetheless, no material adverse impact is expected for the overall operation.

- (2) Policies and Future Action Plans for High-risk, High-Leveraged Investments, Fund Lending to Third Parties, Endorsements and Guarantees, Transactions in Financial Derivatives, Main Reasons for Profit (Loss) over the latest year and as of the date of the annual report:

The Group has adopted a work procedure for "Endorsements, Guarantees and Capital Loans to Third Parties" as well as "Procedure for Asset Acquisition and Disposal," pursuant to which relevant transactions are handled. The Group is not engaged in any high-risk or highly leveraged investment. All derivative transactions are for hedging purposes to mitigate the risks of exchange rate and interest rate fluctuation.

- (3) Budget for future R&D plan and projected investment in R&D as at the date of the annual report:

#### 1. R&D Plan

No	Recent R&D plans	Progress on current R&D plans	Projected date for completion and commercial production
1	Lightweight spare tire research	1. New lightweight material R&D 2. Lightweight structure R&D	2018.12.28
2.	M/C high wet grip technology research project	1. High drainage pattern R&D 2. New silica material R&D 3. Shape and tire structure R&D	2018.11.30
3.	M/C LRR technology research project	1. LRR formula R&D 2. New tire material R&D 3. Lightweight structure R&D	2018.12.31
4.	Huge heavy motorbike tire development	High wet grip & abrasion-resistant material development	2018.12.31

No	Recent R&D plans	Progress on current R&D plans	Projected date for completion and commercial production
5.	TLR simple non-inner tube system	1. Tire air retention structure R&D 2. Lightweight structure R&D	2018.12.31
6.	Electric mountain bike tire structure development	1. Puncture-proof tire structure R&D 2. New puncture-proof material R&D	2018.12.31
7.	ATV maneuverability technology research project	1. New lightweight material R&D 2. Lightweight structure R&D	2018.12.31
8.	TBR abrasion technology research project	1. New tire surface R&D 2. New structure R&D	2018.12.31
9.	TBR resistance technology research project	1. New tire bead structure R&D 2. New apex R&D	2018.12.31
10.	PCR LRR 5.5 product technology research project	1. LRR formula R&D 2. New lightweight material R&D 3. Lightweight structure R&D 4. LRR profile/pattern research	2018.06.30

## 2. Projected investment in R&D

The R&D investment in 2018 is projected to be about 4-5% of the annual revenue to maintain the Company's R&D competitiveness.

- (4) Impact of changes in domestic and foreign policy and laws on the Company's financial operations over the latest year and as at the date of the annual report; action plans:

The Company's management is always monitoring any public policy and law that might have an impact on the Company's business and operations. The change in key domestic and international policy and law this year did not have any major impact on the Company's financial operations. In the future, the Company will keep itself timely updated on relevant information and develop timely and necessary responses to meet the Company's operational needs.

- (5) Impact of changes in technology and industry environment on the Company's financial operations over the latest year and as of the date of the annual report; action plans:

Over the latest year and as of the date of the annual report, there is no change in technology and industry environment that has an impact on the Company's financial operations.

- (6) Impact of changes to corporate image on corporate crisis management over the latest year and as of the date of the annual report; action plans:

The Company has a good corporate image. There is no major change that would have an impact on the Company's crisis management over the latest year and as at

the date of the annual report.

(7) Projected benefits and potential risks associated with mergers and acquisitions activities over the latest year and as at the date of the annual report: None.

(8) Projected benefits and potential risks associated with facility expansion over the latest year and as at the date of the annual report:

Cheng Shin Rubber (Vietnam) is building a new bike tire plant.

As at the date of the annual report, we are proactively developing products and have made progress in line with the initial plans.

Risks associated with expansion of production come from drastic fluctuations in market demands. The Company's management has been paying close attention to future market demands. Benefits from the current expansion of capacity are still in line with the Company's expectations.

(9) Risks associated with concentration of supply and sales over the latest year and as of the date of the annual report: None.

(10) Impact of transfer of significant number of shares by directors, supervisors and/or major shareholders holding 10% or more of the total outstanding shares, risks associated and action plans: None.

(11) Impact of change in ownership, risks associated and action plans: None.

(12) Disclosure of issues in dispute, monetary amount of claims, filing date, parties involved, and status of any litigation or other legal proceedings within the latest fiscal year and as of the date of the annual report where the Company and/or any of its directors, supervisors, president, person in charge, shareholders with 10% or more share ownership, or affiliates are involved in a pending litigation, legal proceedings or administrative proceedings, or a final judgment or ruling which may have a material adverse effect on the Company's shareholder equity or price of securities: None.

(13) Other major risks: None.

7.7 Other material matters: None.



➤ In accordance with Article 369-3 of the Company Act, the Company and those listed below are presumed to have a controlling and subordinate relationship but do not meet such definition under Article 369-2 of the Company Act. Therefore, they are not included in the consolidated financial statement. The information of their shareholders and directors are as follows: None.

➤ Pursuant to Article 369-2(2) of the Company Act, subsidiaries whose personnel, finance or business are controlled directly or indirectly by the Company: None.

## 2. Basic information on affiliates

Enterprise name	Date established	Address	Paid-in capital (note)	Major business or items produced
Cheng Shin Rubber (Xiamen) Ind. Ltd.	1989.05.26	No. 15, Xibin Rd., Xinglin Zhen, Jimei District, Xiamen City	US\$175,000,000	Produces and sells various types of automotive tires
Cheng Shin Rubber USA, Inc	1990.05.11	545 OLD PEACHTREE ROAD, SUWANEE, GA30024 USA	US\$18,000,000	Import-export trade in tires
Cheng Shin Logistics (Xiamen) Co. Ltd.	1993.03.25	No. 11, Xinshun Rd., Haicang District, Xiamen	RMB\$14,411,765	International containerized shipping business
CST Trading Ltd.	1993.05.19	P.O. BOX 116 ROAD TOWN TORTOLA BRITISH VIRGIN ISLANDS	US\$72,900,000	General trade and investment
Cheng Shin Tire & Rubber (China) Co. Ltd	1993.07.27	No. 8, Hefeng Rd., Lujia Township, Kunshan City	US\$225,000,000	Produces and sells various types of automotive tires
Tianjin Tafeng Rubber Ind Co., Ltd.	1994.08.15	No. 1, Shuanghai Ave, Beichen Economic and Technology R&D Zone, Tianjin	US\$18,000,000	Produces and sells various types of automotive tires
Cheng Shin-Toyo (Kunshan) Machinery Co., Ltd.	1996.03.20	Chaoyang East Rd., Kunshan R&D Zone, Jiangsu Province	US\$8,500,000	Produces and sells tire molds for cars and trucks
MAXXIS International Co., Ltd.	1997.01.30	P.O. BOX 31106 SMB, GRAND CAYMAN, CAYMAN ISLAND, BRITISH WEST INDIES.	US\$35,050,000	General trade and investment
Cheng Shin (Qinzhou) Industry Ltd.	1998.09.23	No. 26, Jiangang Rd., Legou Business District, Qinzhou Economic Development Zone, Guangxi	RMB\$45,000,000	Stevedore and Warehousing

Enterprise name	Date established	Address	Paid-in capital (note)	Major business or items produced
Cheng Shin Rubber Canada, Inc	1999.01.31	400 CHRYSLER DRIVE, UNIT C BRAMPTON, ONTARIO, L6S 5Z5 CANADA	CAD\$ 1,518,700	Import-export trade in tires
Cheng Shin Tire (Xiamen) Co., Ltd	2001.12.28	No. 15, Xiyuan Rd., Haicang District, Ximen	US\$130,000,000	Produces and sells various types of automotive tires
MAXXIS Trading Ltd.	2002.08.26	P.O. BOX 957, OFFSHORE INCORPORATION CENTRE, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS	US\$237,811,720	General trade and investment
MAXXIS Holdings (BVI) Co., Ltd.	2002.08.27	P.O. BOX 957, OFFSHORE INCORPORATION CENTRE, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS	US\$237,811,720	General trade and investment
MAXXIS International (Thailand) Co., Ltd.	2002.11.05	300/1 MOO 1, TAMBOL TASITH, AMPHUR PLUAKDAENG, RAYONG PROVINCE 21140, THAILAND	THB\$6,500,000,000	Produces and sells various types of automotive tires
XiaMen Cheng Shin Enterprise Co., Ltd.	2004.01.11	No. 15, Xinshun Rd., Haicang District, Xiamen	US\$45,000,000	Produces and sells various types of automotive tires
MAXXIS Tech Center Europe B. V.	2005.04.01	Weverstraat 5, 5405 BM-Uden, The Netherlands	EUR\$ 1,000,000	Tire testing
Cheng Shin Rubber (Vietnam) Ind. Co., Ltd.	2005.12.08	C'ity TNHH Cong Nghiep Cao Su Chinh Tan Vietnam Nhon Trach 3 Industrial Zone, Nhon Trach county, Dong Nai Province, Vietnam.	US\$62,000,000	Produces and sells various types of automotive tires
MAXXIS International (HK) Ltd.	2007.12.20	Room 2302-6, Yingjun Center, No. 23 Harbour Road, Wanchai, Hong Kong	US\$226,801,983	General trade and investment
Cheng Shin International (HK) Ltd.	2007.12.20	Room 2302-6, Yingjun Center, No. 23 Harbour Road, Wanchai, Hong Kong	US\$246,767,840	General trade and investment
Cheng Shin (Xiamen) International Automobile Cultural Center Co. Ltd.	2009.07.17	Room 101, No. 58, Shuilishe, Kengnei Vil., Guankou Township, Jimei District, Xiamen	US\$20,000,000	Automobile assembly and product R&D, testing and related product display
CST Rubber (Zhangzhou) Ind. Co., Ltd.	2010.03.22	Beida Avenue, Nantaiwu High and New Technology Industry Zone, Gangwei Township, Longhai City	RMB\$950,000,000	Produces and sells various types of automotive tires
Cheng Shin Tire & Rubber (Chong Qing) Co., Ltd.	2010.05.17	No. 27, Jixin Ave., Changshou Economic and Technology Development Zone, Chongqing City	US\$100,000,000	Produces and sells various types of vehicle tires, rubber products,

Enterprise name	Date established	Address	Paid-in capital (note)	Major business or items produced
Cheng Shin (Zhangzhou) Mechanical & Electrical Engineering Co., Ltd.	2010.12.02	Nantaiwu High and New Technology Industry Zone, Longwei Township, Longhai City	RMB20,000,000	Molds and accessories. Mechanical and electric equipment, electronic equipment, general machinery and equipment, rubber mold development and manufacturing.
CST Properties (Xiamen) Co., Ltd.	2013.08.21	Room 201, No. 16 Office Building, 15 Xi'bin Rd., Jimei District, Xiamen	RMB330,000,000	Employee dormitory construction and sales
PT Maxxis International Indonesia	2014.08.27	Kawasan Greenland International Industrial Center (GIIC) Blok CG No. 01, Kota Deltamas, Desa Pasirranji, Kec. Cikarang Pusat, Kabupaten Bekasi	US\$80,000,000	Produces and sells tires and inner tubes
Maxxis Rubber India Private Limited	2015.03.26	A/1, 2nd Floor, Safal Profitaire, Corporate Road, Prahlanagar, Ahmedabad-380015, Gujarat, INDIA	INR 6,500,000,000	Motorcycle tires and inner tube production and sales
Kunshan Maxxis Tire Co., Ltd.	2015.09.28	No. 8, Hefeng Rd., Lujia Township, Kunshan City	RMB5,000,000	Sales of various vehicle tires, rubber products, molds and accessories
Maxxis Trading Company Limited	2016.01.13	No. 180, Juguang Rd., Sanyi Vil., Yuanlin City, Changhua County	NT\$100,000,000	Sales of various vehicle tires, rubber products, and accessories
PT. Maxxis Trading Indonesia	2017.05.10	Kawasan Greenland International Industrial Center (GIIC) Blok CG. No.1A Kota Deltamas, Desa Pasirranji, Kec. Cikarang Pusat, Kabupaten Bekasi	US\$1,000,000	Auto parts trading

Note: Applicable exchange rates are as of the end of the year of the affiliates

(US\$1:NT\$29.76;EUR\$1:NT\$35.57;CAD\$1:NT\$23.705;RMB\$1:NT\$4.565;THB\$1:NT\$0.9176;VND\$1:NT\$0.00119;IDR\$1:NT\$0.00223;INR\$1:NT\$0.4675) for conversions.

3. Information on shareholders of controlling and subordinate companies: There are no presumed subordinate companies.

4. Industry scope of the group affiliates

- Businesses engaged by the Company and its affiliates include tires, general trading and investment, international trade, machinery, R&D and testing of automotive accessories, testing and exhibition of related products, human resource dispatch, etc.
- Cooperation between the Company and affiliates:

Cooperation Matters	Affiliates
Manufacturing and marketing of tire products	The Company, Cheng Shin Rubber (Xiamen) Ind. Ltd. ,Cheng Shin Tire & Rubber (China) Co., Ltd. , Tianjin Tafeng Rubber Ind., Co., Ltd. , Cheng Shin Tire (Xiamen) Co., Ltd. , XiaMen Cheng Shin Enterprise Co., Ltd. , MAXXIS International (Thailand) Co., Ltd. , Cheng Shin Rubber (Vietnam) Ind. Co., Ltd. , Cheng Shin Tire & Rubber (Chong Qing) Co., Ltd. , CST Rubber (Zhangzhou) Ind. Co., Ltd. , PT MAXXIS International Indonesia, Maxxis Rubber India Private Limited
Marketing of Tire Products	Cheng Shin Rubber USA, Inc., Cheng Shin Rubber Canada, Inc., Kunshan Maxxis Tire Co., Ltd., Maxxis Trading Company Limited, PT. MAXXIS TRADING INDONESIA
Production of Molds and Equipment	Cheng Shin-Toyo (Kunshan) Machinery Co., Ltd.
Tire Testing Center	MAXXIS Tech Center Europe B.V.
R&D Centers	The Company, Cheng Shin Tire & Rubber (China) Co., Ltd. , Cheng Shin Rubber USA, Inc. ,Cheng Shin Rubber (Xiamen) Ind. Ltd.
Automotive accessory development and testing, etc.	Cheng Shin (Xiamen) International Automobile Culture Center Co., Ltd.
International packaging and shipping business	Cheng Shin Logistics (Xiamen) Co., Ltd.
Manufacturing and marketing of equipment	Cheng Shin (Zhangzhou) Mechanical & Electrical Engineering Co., Ltd.

5. Directors, Supervisors and General Managers of affiliated enterprises:

Enterprise name	Position	Full name or Representative	Share Holdings	
			Number of shares	Percent holdings (%)
Cheng Shin Rubber (Xiamen) Ind. Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Chen, Shiu-Hsiung; Lo, Tsai-Jen; Lo, Min-ling; Wu, Hsuan-Miao	-	100%
Tianjin Tafeng Rubber Ind Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Chen, Shiu-Hsiung; Lo, Tsai-Jen; Lo, Min-ling	-	100%
MAXXIS International Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Lo, Tsai-Jen; Chiu Li-Ching	35,050,000	100%
CST Trading Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representative: Lo, Tsai-Jen	72,900,000	100%
Cheng Shin Rubber USA, Inc	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Lo, Tsai-Jen; Chiu, Li-Ching; Lee Hung-Wen	1,800,000	100%
Cheng Shin Rubber Canada, Inc	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Lo, Tsai-Jen; Chiu, Li-Ching; Zheng, Ya-Wei	1,000,000	100%
Cheng Shin (Qinzhou) Industry Ltd.	Representative	Xiamen Cheng Shin Rubber Industry Co. Ltd. Legal representative: Chen, Shiu-Hsiung	-	95%
Cheng Shin Tire & Rubber (China) Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Lo, Tsai-Jen; Chen, Shiu-Hsiung; Chiu, Li-Ching; Lee, Chin-Chang	-	100%
Cheng Shin-Toyo (Kunshan) Machinery Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Chen, Shiu-Hsiung; Lo, Tsai-Jen; Lee, Chin-Chang	-	50%

Enterprise name	Position	Full name or Representative	Share Holdings	
			Number of shares	Percent holdings (%)
Cheng Shin Tire (Xiamen) Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Chen, Shiu-Hsiung; Lo, Tsai-Jen; Lo, Min-ling Cheng Shin Rubber (Xiamen) Ind. Ltd. Representative: Hsu, Chih-Ming	-	60% 40%
XiaMen Cheng Shin Enterprise Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Chen, Shiu-Hsiung; Lo, Tsai-Jen; Lo, Min-ling	-	100%
MAXXIS Trading Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representative: Lo, Tsai-Jen	237,811,720	100%
MAXXIS Holdings(BVI)Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representative: Lo, Tsai-Jen	237,811,720	100%
MAXXIS International (Thailand) Co., Ltd.	Director	MAXXIS Holdings (BVI) Co., Ltd. Representative: Lo, Tsai-Jen	65,000,000	100%
Cheng Shin Rubber (Vietnam)Ind.Co., Ltd.	Director	MAXXIS Holdings (BVI) Co., Ltd. Representative: Lo, Tsai-Jen	62,000,000	100%
MAXXIS Tech Center Europe B.V.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Lo, Tsai-Jen; Lin, Chin-Chuan	1,000,000	100%
MAXXIS International (HK) Ltd.	Director	MAXXIS International Co., Ltd. Representatives: Chen, Shiu-Hsiung; Lo, Tsai-Jen	226,801,983	100%
Cheng Shin International (HK) Ltd.	Director	CST Trading Ltd. Representatives: Lo, Tsai-Jen	246,767,840	100%
PT MAXXIS International Indonesia	Representative	Cheng Shin Rubber Industry Co. Ltd. Representative: Lo, Tsai-Jen	79,997,000	99.99625%
PT. MAXXIS TRADING INDONESIA	Representative	Cheng Shin Rubber Industry Co. Ltd. Representative: Lo,	9,990	99.9%

Enterprise name	Position	Full name or Representative	Share Holdings	
			Number of shares	Percent holdings (%)
	ative	Tsai-Jen		
Maxxis Rubber India Private Limited	Representative	Cheng Shin Rubber Industry Co. Ltd. Representative: Lo, Tsai-Jen	649,994,730	99.99919%
Chen Shin (Xiamen) International Automobile Culture Center Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Chen, Shiu-Hsiung; Lo, Tsai-Jen; Lo, Min-ling	-	100%
Cheng Shin Logistics (Xiamen) Co., Ltd.	Representative	Cheng Shin Rubber (Xiamen) Ind., Ltd. Legal representative: Chen, Shiu-Hsiung	-	49%
Cheng Shin Tire & Rubber (Chong Qing) Co., Ltd.	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Lo, Tsai-Jen; Chen, Shiu-Hsiung; Chiu, Li-Ching; Lee, Chin-Chang	-	100%
Kunshan Maxxis Tire Co., Ltd.	Representative	Cheng Shin Tire & Rubber (China) Co., Ltd. Legal Representative: Lee, Chin-Chang	-	100%
Cheng Shin (Zhangzhou) Mechanical & Electrical Engineering Co., Ltd.	Representative	Cheng Shin Rubber (Xiamen) Ind., Ltd. Legal representative: Chen, Shiu-Hsiung	-	50%
CST Properties (Xiamen) Co., Ltd.	Representative	Cheng Shin Rubber (Xiamen) Ind., Ltd. Legal representative: Chen, Shiu-Hsiung	-	100%
Cst Rubber (Zhangzhou) Ind. Co., Ltd.	Representative	Cheng Shin Rubber (Xiamen) Ind., Ltd. Legal representative: Chen, Shiu-Hsiung	-	100%
Maxxis Trading Company Limited	Director	Cheng Shin Rubber Industry Co. Ltd. Representatives: Lo Tsai-Jen; Chen, Shiu-Hsiung; Liao, Cheng-Yao	10,000,000	100%

## (2) Financial status and operating performance of affiliates:

*in NT\$1000*

Enterprise name	Amount of capital (Note 2)	Total value of assets	Total liabilities	Net value	Revenue	Operating profit (Loss)	Profit/loss (After tax)	Earnings per share (NT\$) (After tax)
MAXXIS International Co., Ltd.	1,017,852	41,446,972	98	41,446,874	-	-263	1,463,847	41.76
CST Trading Ltd.	2,117,016	25,176,004	98	25,175,906	-	-229	3,417,894	46.88
Cheng Shin Rubber USA, Inc	535,680	3,629,420	1,195,490	2,433,930	5,644,797	493,045	293,212	162.90
Cheng Shin Rubber Canada, Inc	36,001	1,160,865	434,010	726,855	2,408,265	264,198	183,454	183.45
Chau Shin Investment Corp.	-	-	-	-	-	-340	19,528	1.95
Cheng Shin (Qinzhou) Industry Ltd.	205,425	144,701	5,942	138,759	9,194	-12,261	-11,332	-
Cheng Shin Tire & Rubber (China) Co., Ltd.	8,164,361	32,335,092	9,338,099	22,996,993	22,749,818	1,934,903	2,925,218	-
Cheng Shin-Toyo (Kunshan) Machinery Co., Ltd.	310,086	422,377	75,316	347,061	428,428	134,075	84,640	-
Cheng Shin Rubber (Xiamen) Ind. Ltd.	5,694,856	37,384,969	14,471,358	22,913,611	19,347,853	465,074	1,064,405	-
Tianjin Tafeng Rubber Ind Co., Ltd.	674,531	1,805,629	205,954	1,599,675	1,692,317	-220,839	-213,203	-
Cheng Shin Tire (Xiamen) Co., Ltd.	4,405,958	16,693,541	4,192,190	12,501,351	14,026,952	138,590	145,219	-
MAXXIS Trading Ltd.	6,906,052	9,890,187	100	9,890,087	-	-265	245,429	1.03
MAXXIS Holdings (BVI) Co.,	6,906,052	10,345,830	-	10,345,830	-	-78	244,596	1.03

Enterprise name	Amount of capital (Note 2)	Total value of assets	Total liabilities	Net value	Revenue	Operating profit (Loss)	Profit/loss (After tax)	Earnings per share (NT\$) (After tax)
Ltd.								
XiaMen Cheng Shin Enterprise Co., Ltd.	1,662,942	8,734,182	927,683	7,806,499	4,170,071	449,868	536,748	-
MAXXIS Tech Center Europe B. V.	35,570	65,716	5,559	60,157	73,781	4,937	3,914	3.91
Cheng Shin Rubber (Vietnam)Ind. Co., Ltd	1,340,274	4,390,772	1,820,861	2,569,911	5,198,435	827,970	676,790	10.92
MAXXIS International (Thailand) Co., Ltd.	5,964,400	17,808,253	10,035,375	7,772,878	14,348,645	-562,990	-431,892	-6.64
MAXXIS International (HK) Ltd.	6,586,330	32,430,634	-	32,430,634	-	-96	1,597,595	7.04
Cheng Shin International (HK) Ltd.	7,166,138	25,020,939	-	25,020,939	-	-89	3,429,110	13.90
PT. MAXXIS International Indonesia	2,025,018	7,525,735	5,805,246	1,720,489	1,232	-292,895	-432,183	-5
PT MAXXIS TRADING INDONESIA	29,753	30,165	197	29,968	-	-338	-306	-31
Cheng Shin (Xiamen) International Automobile Culture Center Co., Ltd.	608,960	810,999	420,590	390,409	1,622	-66,344	-76,160	-
Cheng Shin Logistics (Xiamen) Co., Ltd.	65,790	277,768	62,755	215,013	507,181	42,483	35,099	-

Enterprise name	Amount of capital (Note 2)	Total value of assets	Total liabilities	Net value	Revenue	Operating profit (Loss)	Profit/loss (After tax)	Earnings per share (NT\$) (After tax)
CST Rubber (Zhangzhou) Ind. Co., Ltd.	4,336,750	14,785,560	9,506,753	5,278,807	8,303,010	448,173	288,831	-
Cheng Shin Tire & Rubber (Chong Qing) Co., Ltd.	2,976,864	9,277,074	3,485,340	5,791,734	7,260,760	1,306,703	1,504,767	-
CST Properties (Xiamen) Co., Ltd.	1,506,450	2,353,307	902,041	1,451,266	-	-31,652	-32,055	-
Maxxis Rubber India Private Limited	2,571,250	9,484,922	7,435,817	2,049,105	98,927	-495,805	-463,182	-1
Kunshan Maxxis Tire Co., Ltd.	22,825	22,157	70	22,087	1,158	-665	-472	-
Maxxis Trading Company Limited	100,000	839,330	414,455	424,875	4,757,737	366,548	305,209	31

Note 1: Assets and liabilities are based on end-of-year exchange rates (US\$1:

(US\$1:NT\$29.76;EUR\$1:NT\$35.57;CAD\$1:NT\$23.705;RMB\$1:NT\$4.565;THB\$1:NT\$0.9176;VND\$1:NT\$0.00119;IDR\$1:NT\$0.00223;INR\$1:NT\$0.4675)

Profits and losses are based on weighted average exchange rates

(US\$1:NT\$30.43154;EUR\$1:NT\$34.35195;CAD\$1:NT\$23.45524;RMB\$1:NT\$4.50679;THB\$1:NT\$0.90184;VND\$1:NT\$0.00122;IDR\$1:NT\$0.00229;INR\$1:NT\$0.4675)

Note 2: Paid-in capital.

(3) Consolidated financial statement of affiliates:

For 2017 (January 1, 2017 through to December 31, 2017), companies that are required to be included in the consolidated financial statements of affiliates in accordance with Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are identical to those that must be included in the consolidated financial statements of parent and subsidiary under International Accounting Standard No. 27. Since matters that must be disclosed by consolidated financial statements of affiliates have been disclosed by consolidated financial statements of parent and subsidiary, no consolidated financial statements of affiliates are separately prepared.

(4) Affiliation Reports: In the absence of any presumed subordinate, no such report is prepared.

- 8.2 Private placement of securities over the latest year and as at the date of the printing of the annual report: None.
- 8.3 Shareholding or disposition of shares of the Company by any subsidiary over the latest year and as at the date of the printing of the annual report: None.
- 8.4 Other matters: None
- 8.5 Material matters specified by Article 36(3)(ii) of the Securities and Exchange Act that has a material impact on interests of shareholders or price of securities over the latest year and as of the date the printing of the annual report: None.

Cheng Shin Rubber Industry Co. Ltd.

Chairman



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