

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

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

REPORT OF INDEPENDENT ACCOUNTANTS

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,

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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.

Hung, Shu-Hua

Wu, Der Feng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 20, 2018

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			December 31, 2017		December 31, 2016			
			AMOUNT	%	AMOUNT	%		
Current assets								
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	Current Assets			66,663,624	37		58,153,934	35
Non-current assets								
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	Non-current assets			112,420,631	63		110,010,792	65
1XXX	Total assets		\$	179,084,255	100	\$	168,164,726	100

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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	%
Current liabilities					
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 Current Liabilities		<u>42,078,364</u>	<u>24</u>	<u>39,786,698</u>	<u>24</u>
Non-current liabilities					
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 Non-current liabilities		<u>54,114,588</u>	<u>30</u>	<u>40,108,640</u>	<u>24</u>
2XXX Total Liabilities		<u>96,192,952</u>	<u>54</u>	<u>79,895,338</u>	<u>48</u>
Equity					
Equity attributable to owners of parent					
Share capital	6(17)				
3110 Share capital - common stock		32,414,155	18	32,414,155	19
Capital surplus	6(18)				
3200 Capital surplus		52,576	-	52,576	-
Retained earnings	6(19)				
3310 Legal reserve		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
Other equity interest	6(20)				
3400 Other equity interest		(4,430,061)	(2)	(3,307,822)	(2)
31XX Equity attributable to owners of the parent		<u>82,205,292</u>	<u>46</u>	<u>87,493,251</u>	<u>52</u>
36XX Non-controlling interest		<u>686,011</u>	<u>-</u>	<u>776,137</u>	<u>-</u>
3XXX Total equity		<u>82,891,303</u>	<u>46</u>	<u>88,269,388</u>	<u>52</u>
Significant contingent liabilities and unrecognised contract commitments	9				
Significant events after the balance sheet date	11				
3X2X Total liabilities and equity		<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	Sales revenue	7	\$ 112,309,166	100	\$ 117,387,519	100
5000	Operating costs	6(6)	(86,631,096)	(77)	(81,098,410)	(69)
5900	Net operating margin		25,678,070	23	36,289,109	31
	Operating expenses	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	Total operating expenses		(17,279,578)	(16)	(17,617,696)	(15)
6900	Operating profit		8,398,492	7	18,671,413	16
	Non-operating income and expenses					
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	Total non-operating income and expenses		(16,623)	-	(776,427)	(1)
7900	Profit before income tax		8,381,869	7	17,894,986	15
7950	Income tax expense	6(25)	(2,779,844)	(2)	(4,548,505)	(4)
8200	Profit for the year		\$ 5,602,025	5	\$ 13,346,481	11

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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)

		Year ended December 31			
		2017		2016	
Items	Notes	AMOUNT	%	AMOUNT	%
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Other comprehensive income, before tax, actuarial gains (losses) on defined benefit plans	\$ 19,804	-	(\$ 80,322)	-
8320	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	(3,367)	-	13,655	-
8310	Components of other comprehensive income(loss) that will not be reclassified to profit or loss	16,741	-	(67,702)	-
Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations	(1,492,148)	(1)	(6,255,531)	(5)
8362	Unrealized loss on valuation of available-for-sale financial assets	(9,226)	-	(24,010)	-
8370	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	727	-	(3,298)	-
8399	Income tax relating to the components of other comprehensive income	228,042	-	1,045,110	1
8360	Components of other comprehensive loss that will be reclassified to profit or loss	(1,272,605)	(1)	(5,237,729)	(4)
8300	Other comprehensive loss for the year	(\$ 1,255,864)	(1)	(\$ 5,305,431)	(4)
8500	Total comprehensive income for the year	\$ 4,346,161	4	\$ 8,041,050	7
Profit, attributable to:					
8610	Owners of the parent	\$ 5,541,785	5	\$ 13,250,903	11
8620	Non-controlling interest	60,240	-	95,578	-
		\$ 5,602,025	5	\$ 13,346,481	11
Comprehensive income(loss), attributable to:					
8710	Owners of the parent	\$ 4,436,287	4	\$ 8,056,360	7
8720	Non-controlling interest	(90,126)	-	(15,310)	-
		\$ 4,346,161	4	\$ 8,041,050	7
Earnings per share (in dollars)					
9750	Basic earnings per share		1.71		4.09
9850	Diluted earnings per share		1.71		4.08

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

CHENG SHIN RUBBER IND. CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

		Equity attributable to owners of the parent										
		Capital Surplus			Retained Earnings			Other equity interest				
Notes	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	Total	Non- controlling interest	Total equity	
<u>Year ended December 31, 2017</u>												
	\$ 32,414,155	\$ 9,772	\$ 42,804	\$ 11,678,012	\$ 2,604,163	\$ 40,593,212	\$ 1,744,319	\$ 74,700	\$ 89,161,137	\$ 791,447	\$ 89,952,584	
Appropriations of 2016 earnings:												
Legal reserve	-	-	-	1,277,665	-	(1,277,665)	-	-	-	-	-	
Cash dividends	6(19)	-	-	-	-	(9,724,246)	-	-	(9,724,246)	-	(9,724,246)	
Profit for the year	-	-	-	-	-	13,250,903	-	-	13,250,903	95,578	13,346,481	
Other comprehensive loss for the year	6(20)	-	-	-	-	(67,702)	(5,102,593)	(24,248)	(5,194,543)	(110,888)	(5,305,431)	
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>\$ 776,137</u>	<u>\$ 88,269,388</u>	
<u>Year ended December 31, 2016</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	\$ 776,137	\$ 88,269,388	
Appropriations of 2015 earnings:												
Legal reserve	-	-	-	1,325,090	-	(1,325,090)	-	-	-	-	-	
Special reserve	-	-	-	-	703,659	(703,659)	-	-	-	-	-	
Cash dividends	6(19)	-	-	-	-	(9,724,246)	-	-	(9,724,246)	-	(9,724,246)	
Profit for the year	-	-	-	-	-	5,541,785	-	-	5,541,785	60,240	5,602,025	
Other comprehensive income (loss) for the year	6(20)	-	-	-	-	16,741	(1,113,380)	(8,859)	(1,105,498)	(150,366)	(1,255,864)	
Balance at December 31, 2016	<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>	<u>\$ 686,011</u>	<u>\$ 82,891,303</u>	

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
CASH FLOWS FROM OPERATING ACTIVITIES			
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		8,900,893	27,271,995

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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
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
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)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
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)	<u>\$ 30,923,979</u>	<u>\$ 28,893,546</u>

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

	December 31, 2017	December 31, 2016
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

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

(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	<u>17,551</u>	<u>12,944</u>
	<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	<u>283,334</u>	<u>338,464</u>
	<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	<u>42,644</u>	<u>21,716</u>
	<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)
	<u>\$ 86,634,096</u>	<u>\$ 81,098,410</u>

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	<u>\$ 8,581</u>	<u>\$ 21,357</u>

(8) Property, plant and equipment, net

December 31, 2017

	Beginning of period	Additions	Disposals	Transfer	Exchange rate differences	End of period
Cost						
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>
Accumulated depreciation						
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>
Accumulated impairment						
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
Cost						
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>
Accumulated depreciation						
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>
Accumulated impairment						
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)	-	-	-	(\$ 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)	-	-	(\$ 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

	December 31, 2017	December 31, 2016
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

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

Type of borrowings	December 31, 2016	Interest rate range	Collateral
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

	December 31, 2017	December 31, 2016
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

	December 31, 2017	December 31, 2016
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
Installment-repayment				
Unsecured borrowings	Principal is repayable in installment until September, 2024.	0.97% ~ 5.13%	None	\$ 35,435,510
Other borrowings				
Unsecured borrowings	Principal is repayable in November, 2018 at the maturity.	4.75%	None	225,968
				35,661,478
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
Installment-repayment				
Unsecured borrowings	Principal is repayable in installment until December, 2023.	0.83% ~ 2.89%	None	\$ 29,572,394
Other borrowings				
Unsecured borrowings	Principal is repayable in November, 2018 at the maturity.	4.75%	None	55,404
				29,627,798
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	<u>\$ 753,940</u>	<u>\$ 783,136</u>

(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>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 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	<u>561</u>	<u>-</u>	<u>561</u>
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	<u>420,529</u>	<u>384,995</u>
	<u>\$ 1,722,316</u>	<u>\$ 1,168,424</u>

(22) Other gains and losses

	2017	2016
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

	2017	2016
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

	2017	2016
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	<u>\$ 2,779,844</u>	<u>\$ 4,548,505</u>

(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	<u>(\$ 224,675)</u>	<u>\$ 1,058,765</u>

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
	<u>\$ 42,774,502</u>

- 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	<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' compensation	<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		
	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	<u>\$ 13,250,903</u>	<u>3,241,416</u>	<u>\$ 4.09</u>
<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	<u>-</u>	<u>6,845</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 13,250,903</u>	<u>\$ 3,248,261</u>	<u>\$ 4.08</u>

(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	<u>\$ 13,947,026</u>	<u>\$ 14,087,460</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
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

	2017	2016
Sales of goods:		
Associates	\$ 558,903	\$ 643,667
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

	December 31, 2017	December 31, 2016
Accounts receivable:		
Associates	\$ 119,288	\$ 129,733

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

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

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

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

8. PLEDGED ASSETS

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

Pledged asset	Book value		Purpose
	December 31, 2017	December 31, 2016	
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
	\$ 15,070	\$ 15,008	

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:

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

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

	December 31, 2017	December 31, 2016
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:

	December 31, 2017	December 31, 2016
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: functional currency)	Foreign		Book value	Sensitivity analysis		
	currency amount		(TWD	Degree of	Effect on profit	Effect on other
	(In thousands)	Exchange rate	in thousands)	variation	or loss	comprehensive income
<u>Financial assets</u>						
<u>Monetary items</u>						
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: functional currency)	Foreign		Book value	Sensitivity analysis			
	currency	amount	(TWD	Degree of	Effect on profit	Effect on other	
	(In thousands)	Exchange rate	in thousands)	variation	or loss	comprehensive income	
<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: functional currency)	Foreign		Book value (TWD in thousands)	Sensitivity analysis		
	currency amount (In thousands)	Exchange rate		Degree of variation	Effect on profit or loss	Effect on other comprehensive income
<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: functional currency)	Foreign		Book value	Sensitivity analysis		
	currency amount		(TWD	Degree of	Effect on profit	Effect on other
	(In thousands)	Exchange rate	in thousands)	variation	or loss	comprehensive
						income
<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:

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

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

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

(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	9,174,585	9,588,189
Total operating segments	130,467,626	132,208,199
Elimination of inter-segment revenue	(18,158,460)	(14,820,680)
Total consolidated operating revenue	\$ 112,309,167	\$ 117,387,519

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	(120,120)	816,802
Total operating segments	8,317,135	17,844,506
Income from elimination of inter-segment revenue	64,734	50,480
Income from continuing operations before income tax	\$ 8,381,869	\$ 17,894,986

(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:

	2017	2016
Sales revenue	\$ 112,309,166	\$ 117,387,519

(6) Geographical information

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

	2017		2016	
	Revenue	Non-current assets	Revenue	Non-current assets
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	38,552,155	26,711,474	39,767,494	22,245,213
Total	(\$ 112,309,166)	(\$ 111,114,465)	(\$ 117,387,519)	(\$ 108,943,661)

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

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

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 (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) 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		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 endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
		Company name	Relationship with the endorser/ guarantor											
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	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	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	N	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	Y	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	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	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	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.

\$ 57,543,704

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

\$ 16,441,058

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

\$ 41,102,646

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.

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)

					As of December 31, 2017			
Securities held by	Marketable securities (Note 1)	Relationship with the securities		Number of shares/ units	Ownership			Footnote
		issuer	General ledger account		Book value	(%)	Fair value	
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	General	Counterparty	Relationship with the investor	Balance as at January 1, 2017		Addition (Note 3)		Disposal (Note 3)		Gain (loss) on disposal		Balance as at December 31, 2017	
	(Note 1)	ledger account	(Note 2)	(Note 2)	Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value		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		Percentage of total purchases (sales)	Credit term	Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)		Footnote (Note 2)
			Purchases (sales)	Amount			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-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%	
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)

							Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)		
Transaction											
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)
CHENG SHIN TOYO (KUNSHAN) MACHINERY CO., LTD.	CHENG SHIN TIRE & RUBBER (CHINA) CO., LTD.	Same ultimate parent	(sales)	(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)	(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)	(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)	(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)	(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)	(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)	(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)	(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

Expressed in thousands of NTD

(Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at December 31, 2017	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date (Note 1)	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-subsidiary (Note 5)	241,985	Note 3	-	-	110,901	-
Cheng Shin Rubber Ind. Co., Ltd.	Cheng Shin Rubber (Vietnam) IND Co., Ltd.	Sub-subsidiary (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, endorsements/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)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount (Note 4)	Transaction terms	
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	\$ 1,465,365	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	Sub-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	Sub-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			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			
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) IND 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

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,	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,	Net income of investee as of December 31,	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31,	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,	Footnote	
				2017	Remitted to Mainland China	Remitted back to Taiwan	2017			2017	2017	2017		
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 as of January 1,	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,	Net income of investee as of December 31,	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31,	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,		Footnote
				2017	Remitted to Mainland China	Remitted back to Taiwan	2017					2017	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)	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)	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
				Remitted to Mainland China	Remitted back to Taiwan								
XIAMEN ESATE 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)
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.