

Evergreen Steel Corporation

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

001

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Evergreen Steel Corporation

We have audited the accompanying balance sheets of Evergreen Steel Corporation as of December 31, 2017 and 2016 and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Evergreen Steel Corporation as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended, in conformity with the Business Entity Accounting Act, Regulation on Business Entity Accounting Handling relevant to financial accounting standards, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Deloitte & Touche

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 20, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

EVERGREEN STEEL CORPORATION

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

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 261,154	2	\$ 166,691	1
Notes receivable, net (Notes 4, 5 and 19)	228,349	2	94,568	1
Trade receivables, net (Notes 4, 5, 9, 19 and 26)	2,453,801	17	2,132,478	16
Amounts due from customers for construction contracts (Notes 4, 5, 10 and 19)	1,060,917	7	1,338,684	10
Other receivables (Note 26)	20,173	-	8,672	-
Inventories (Notes 4, 5, 11 and 19)	927,566	6	578,138	4
Other financial assets - current (Note 27)	9,400	-	9,300	-
Current tax assets (Notes 4 and 23)	21,772	-	21,772	-
Other current assets	46,738	-	69,028	1
Total current assets	5,029,870	34	4,419,331	33
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4 and 7)	4,359,552	29	3,674,990	27
Financial assets measured at cost - non-current (Notes 4 and 8)	899,029	6	898,869	7
Investments accounted for using equity method (Notes 4 and 12)	2,310,334	16	2,199,268	16
Property, plant and equipment (Notes 4, 13 and 27)	1,837,619	12	1,838,035	14
Investment properties (Notes 4, 14 and 27)	309,773	2	312,085	2
Computer software at cost, net (Note 4)	9,431	-	7,598	-
Refundable deposits	13,398	-	15,264	-
Deferred tax assets (Notes 4 and 23)	13,559	-	12,214	-
Other non-current assets	64,573	1	101,973	1
Total non-current assets	9,817,268	66	9,060,296	67
TOTAL	\$ 14,847,138	100	\$ 13,479,627	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 15)	\$ 50,000	-	\$ -	-
Short-term bills payable (Note 15)	150,000	1	-	-
Notes payable, net (Note 16)	315,865	2	334,453	3
Trade payable, net (Notes 16 and 19)	1,031,618	7	815,310	6
Amounts due to customers for construction contracts (Notes 4, 5, 10 and 19)	819,792	6	957,880	7
Other payables (Notes 17 and 26)	113,211	1	132,401	1
Current tax liabilities (Notes 4 and 23)	49,613	-	35,325	-
Other current liabilities	127,730	1	99,864	1
Total current liabilities	2,657,829	18	2,375,233	18
NON-CURRENT LIABILITIES				
Long-term borrowings (Notes 15 and 27)	-	-	60,000	-
Net defined benefit liabilities - non-current (Notes 4 and 18)	82,038	1	79,933	1
Deferred tax liabilities (Notes 4 and 23)	65,995	-	65,995	-
Guarantee deposits received	1,647	-	1,672	-
Total non-current liabilities	149,680	1	207,600	1
Total liabilities	2,807,509	19	2,582,833	19
EQUITY (Note 20)				
Share capital	4,054,260	27	4,054,260	30
Ordinary shares	250,766	2	220,747	2
Capital surplus	-	-	-	-
Retained earnings	1,878,545	13	1,804,647	13
Legal reserve	6,076,493	41	5,671,212	42
Unappropriated earnings	7,955,038	54	7,475,859	55
Total retained earnings	-	-	-	-
Other equity	62	-	907	-
Exchange differences on translating foreign operations	84,577	-	(549,905)	(4)
Unrealized gain (loss) on available-for-sale financial assets	84,639	-	(548,998)	(4)
Total other equity	(305,074)	(2)	(305,074)	(2)
Treasury shares	-	-	-	-
Total equity	12,039,629	81	10,896,794	81
TOTAL	\$ 14,847,138	100	\$ 13,479,627	100

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

EVERGREEN STEEL CORPORATION

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

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 21 and 26)	\$ 8,578,452	100	\$ 7,820,994	100
OPERATING COSTS (Notes 11, 22 and 26)	<u>(7,833,240)</u>	<u>(92)</u>	<u>(7,164,843)</u>	<u>(92)</u>
GROSS PROFIT	745,212	8	656,151	8
OPERATING EXPENSES (Notes 18 and 22)	<u>(451,670)</u>	<u>(5)</u>	<u>(465,554)</u>	<u>(6)</u>
PROFIT FROM OPERATIONS	<u>293,542</u>	<u>3</u>	<u>190,597</u>	<u>2</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 22)	374,662	4	141,627	2
Other (losses) and gains (Note 22)	(2,469)	-	(2,259)	-
Finance costs	(1,530)	-	(9,991)	-
Share of profit of subsidiaries (Note 12)	<u>562,748</u>	<u>7</u>	<u>457,069</u>	<u>6</u>
Total non-operating income and expenses	<u>933,411</u>	<u>11</u>	<u>586,446</u>	<u>8</u>
PROFIT BEFORE INCOME TAX	1,226,953	14	777,043	10
INCOME TAX EXPENSE (Note 23)	<u>(33,472)</u>	<u>-</u>	<u>(38,061)</u>	<u>(1)</u>
NET PROFIT FOR THE YEAR	<u>1,193,481</u>	<u>14</u>	<u>738,982</u>	<u>9</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 18)	(24,746)	-	(32,078)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	4,207	-	5,453	-
Share of the other comprehensive income of subsidiaries accounted for using the equity method	(4,539)	-	(1,802)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(845)	-	(188)	-
Unrealized (loss) gain on available-for-sale financial assets	<u>634,482</u>	<u>7</u>	<u>(437,715)</u>	<u>(6)</u>
Other comprehensive income for the year, net of income tax	<u>608,559</u>	<u>7</u>	<u>(466,330)</u>	<u>(6)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,802,040</u>	<u>21</u>	<u>\$ 272,652</u>	<u>3</u>

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

EVERGREEN STEEL CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Retained Earnings				Other Equity			Treasury Stock	Total Equity
	Capital Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain on Available-for-sale Financial Asset			
BALANCE, JANUARY 1, 2016	\$ 4,054,260	\$ 194,259	\$ 1,738,640	\$ 5,634,803	\$ 1,095	\$ (112,190)	\$ (305,074)	\$ 11,205,993	
Appropriation of 2015 earnings	-	-	66,007	(66,007)	-	-	-	-	
Legal reserve	-	-	-	(608,139)	-	-	-	(608,139)	
Cash dividends distributed by the Company	-	26,488	-	-	-	-	-	26,488	
Cash dividends from company's parent	-	-	-	738,982	-	-	-	738,982	
Net profit for the year ended December 31, 2016	-	-	-	(28,427)	(188)	(437,715)	-	(466,330)	
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	710,555	(188)	(437,715)	-	272,652	
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	5,671,212	907	(549,905)	(305,074)	10,896,794	
BALANCE, DECEMBER 31, 2016	4,054,260	220,747	1,804,647	5,671,212	907	(549,905)	(305,074)	10,896,794	
Appropriation of 2016 earnings	-	-	73,898	(73,898)	-	-	-	-	
Legal reserve	-	-	-	(689,224)	-	-	-	(689,224)	
Cash dividends distributed by the Company	-	-	-	-	-	-	-	-	
Cash dividends from company's parent	-	30,019	-	-	-	-	-	30,019	
Net profit for the year ended December 31, 2017	-	-	-	1,193,481	-	-	-	1,193,481	
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	(25,078)	(845)	634,482	-	608,559	
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	1,168,403	(845)	634,482	-	1,802,040	
BALANCE, DECEMBER 31, 2017	\$ 4,054,260	\$ 250,766	\$ 1,878,545	\$ 6,076,493	\$ 62	\$ 84,572	\$ (305,074)	\$ 12,039,629	

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

EVERGREEN STEEL CORPORATION

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 1,226,953	\$ 777,043
Adjustments for:		
Depreciation expenses (investment properties included)	96,576	105,421
Amortization expenses	5,363	3,923
Impairment loss recognized on trade receivables	128	-
Finance costs	1,530	9,991
Interest income	(2,735)	(11,048)
Dividend income	(107,595)	(86,805)
Share of profit of subsidiaries	(562,748)	(457,069)
Gain on disposal of property, plant and equipment	(784)	(753)
Realized gain on the transactions with subsidiaries	(1,273)	(1,273)
Changes in operating assets and liabilities		
(Increase) decrease in notes receivable	(133,781)	161,291
(Increase) decrease in trade receivables	(321,451)	344,851
Decrease (increase) in amounts due from customers for construction contracts	277,767	(221,499)
(Increase) decrease in other receivables	(11,439)	430
(Increase) decrease in inventories	(349,428)	617,591
Decrease in other current assets	22,289	4,486
(Decrease) increase in notes payable	(18,588)	21,421
(Decrease) increase in trade payables	216,308	(93,984)
(Decrease) increase in amount due to customers for construction contracts	(138,088)	121,105
Decrease in other payables	(18,812)	(2,767)
Increase in other current liabilities	27,866	12,114
Decrease in net defined benefit liabilities	(22,641)	(22,469)
Cash generated from operations	185,417	1,282,000
Interest received	2,673	11,949
Interest paid	(1,908)	(9,612)
Income tax paid	(16,321)	(2,947)
Net cash generated from operating activities	<u>169,861</u>	<u>1,281,390</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other financial assets	(100)	-
Purchase of available-for-sale financial assets	(67,320)	(2,947,225)
Purchase of financial assets measured at cost	(160)	-
Payments for property, plant and equipment	(93,848)	(78,110)
Payments for intangible assets	(7,196)	(4,842)
Decrease (increase) in refundable deposits	1,866	(3,432)
Decrease (increase) in other non-current assets	37,400	(81,402)

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EVERGREEN STEEL CORPORATION

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

	2017	2016
Other dividends received	\$ 107,595	\$ 86,805
Dividends received from subsidiaries	<u>495,614</u>	<u>324,629</u>
Net cash generated from (used in) investing activities	<u>473,851</u>	<u>(2,703,577)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (repayments of) short-term borrowings	50,000	(1,000)
Proceeds from bills payable	150,000	-
Proceeds from long-term borrowings	-	1,100,000
Repayments of long-term borrowings	(60,000)	(1,040,000)
Decrease in guarantee deposits	(25)	-
Dividends paid to owners of the Company	<u>(689,224)</u>	<u>(608,139)</u>
Net cash used in financing activities	<u>(549,249)</u>	<u>(549,139)</u>
NET INCREASE (DECREASE) IN CASH	94,463	(1,971,326)
CASH AT THE BEGINNING OF THE YEAR	<u>166,691</u>	<u>2,138,017</u>
CASH AT THE END OF THE YEAR	<u>\$ 261,154</u>	<u>\$ 166,691</u>

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

(Concluded)

EVERGREEN STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Evergreen Steel Corporation (“the Company” formerly Evergreen Heavy Industrial Corporation, which was later renamed Evergreen E-Services Corporation and Evergreen Development Corporation) was incorporated in January 1973 as a company limited by shares under the Company Law of the Republic of China. The Company merged with Evergreen Superior Alloys Corporation on August 31, 1990. In 1993, the superior alloys division and related assets were transferred or sold to Gloria Material Technology Corporation (formerly Gloria Heavy Industrial Corporation). The Company merged with Ever Pioneer Steel Corporation on October 31, 1998. In 1998, management decided to discontinue the operations of the container production division. On September 30, 2009, the Company merged with Green Steel Structure Corporation by issuing 4,993 thousand shares to acquire a minority interest’s holding of 5.72%. In this merger, the Company was the survivor entity.

The Company repairs containers and manufactures and sells steel bars, steel structures and related components.

The financial statements are presented in the Company’s functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 20, 2018.

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

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

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Company’s accounting policies, therefore the Company will not disclose any applicable explanations.

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

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

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

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

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

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

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

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

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

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

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

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

Besides this, unlisted shares measured at cost will be measured at fair value instead.

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

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

The Company has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables. In general, the Company anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

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

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Financial assets measured at cost - non-current	\$899,029	\$ (899,029)	\$ -
Available-for-sale financial assets - non-current	4,359,552	(4,359,552)	-
Financial assets at fair value through other comprehensive income - non-current	-	5,258,581	5,258,581
Total effect on assets	<u>\$ 5,258,581</u>	<u>\$ -</u>	<u>\$ 5,258,581</u>
<u>Other equity</u>			
Unrealized gain/(loss) on available-for-sale financial assets	\$ 84,577	\$ (84,577)	\$ -
Unrealized gain/(loss) on debt investments at fair value through other comprehensive income	-	84,577	84,577
Total effect on other equity	<u>\$ 84,577</u>	<u>\$ -</u>	<u>\$ 84,577</u>

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

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

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

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

The Company elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018. The Company assesses that there will be no anticipated effect of retrospectively applying IFRS 15 based on the current situation on December 31, 2017.

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

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

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

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

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

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

- IFRS 16 “Leases”

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The Company's financial statements have been prepared in accordance with the Business Entity Accounting Act (issued on June 18, 2014), Regulation on Business Entity Accounting Handling (issued on November 19, 2014) and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The Company's financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value. Historical cost are determined by assets acquired at fair value of the consideration paid.

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

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

The Company engages in the construction business, which has an operating cycle of over one year, the normal operating cycle applies when considering the classification of the Company's construction-related assets and liabilities.

d. Foreign currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting financial statements, the functional currencies of the Company are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

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

f. Investments in subsidiaries

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

Subsidiary is an entity that is controlled by the Company.

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

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

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

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

g. Property, plant and equipment

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

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

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

h. Investment properties

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

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

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

i. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

j. Impairment of tangible and intangible assets

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

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

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

Financial assets are classified into the following categories: Available-for-sale financial assets and loans and receivables.

i. Available-for-sale financial assets

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

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

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

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

ii. Loans and receivables

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

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

b) Impairment of financial assets

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

For financial assets carried at amortized cost, such as account receivables and other receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

a) Subsequent measurement

All the financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

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

1. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

1) Sale of goods

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

- a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;
- d) It is probable that the economic benefits associated with the transaction will flow to the Company; and
- e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Dividend and interest income

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

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

m. Construction contracts

When the outcome of a construction contract (including construction or upgrade services of infrastructure under service concession arrangement) can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent the amount can be measured reliably and its receipt is considered probable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for construction contracts. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as the amounts due to customers for construction contracts. Amounts received before the related work is performed are included in the balance sheet, as a liability. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

n. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

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

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plan or reductions in future contributions to the plans.

o. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

3) Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Income taxes

The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

b. Estimated impairment of trade receivables

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

c. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

d. Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

e. Construction contract

Contract revenue and costs are recognized by reference to the stage of completion of each contract. The stage of completion of the contract is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentives are included in contract revenue to the extent that the amount can be measured reliably and its receipt is considered probable.

Estimated total contract costs and contracted items are assessed and determined by the management based on the nature of activities, expected sub-contracting charges, construction periods, processes, methods, etc., for each construction contract. Changes in these estimates might affect the calculation of the percentage of completion and related profits from construction contracts.

6. CASH

	<u>December 31</u>	
	2017	2016
Cash on hand	\$ 2,817	\$ 2,819
Checking accounts and demand deposits	87,987	93,522
Cash equivalent		
Time deposits	<u>170,350</u>	<u>70,350</u>
	<u>\$ 261,154</u>	<u>\$ 166,691</u>

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2017	2016
<u>Non-current</u>		
Domestic investments		
Listed shares and emerging market shares	<u>\$ 4,359,552</u>	<u>\$ 3,674,990</u>

8. FINANCIAL ASSETS MEASURED AT COST

	<u>December 31</u>	
	2017	2016
<u>Non-current</u>		
Domestic unlisted common shares	\$ 699,029	\$ 698,869
Overseas unlisted common shares	<u>200,000</u>	<u>200,000</u>
	<u>\$ 899,029</u>	<u>\$ 898,869</u>
<u>Classified according to financial assets measurement categories</u>		
Available-for-sale financial assets	<u>\$ 899,029</u>	<u>\$ 898,869</u>

Management believed that the above unlisted equity investments held by the Company, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.

Tung Ting Gas Corporation ("TTG"), the Company's investee company, was dissolved after the merger with CPC Corporation ("CPC"). The merger was approved in compliance with the Enterprise Mergers and Acquisitions Law in the special shareholder's meeting, on December 6, 2016. The Company received \$226,693 thousand as the consideration in March 2017 and the disposal gain was included in other income in the comprehensive income statement.

9. TRADE RECEIVABLES

	<u>December 31</u>	
	2017	2016
<u>Trade receivables</u>		
Trade receivables	\$ 2,516,785	\$ 2,195,334
Less: Allowance for impairment loss	<u>(62,984)</u>	<u>(62,856)</u>
	<u>\$ 2,453,801</u>	<u>\$ 2,132,478</u>

a. Trade receivables

The average credit period on sales of goods was 0 to 120 days. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. Trade receivables included retentions receivable from construction contracts which are not bearing interest and are expected to remain as receivables until the conditions specified in each contract are satisfied for the payment of such amounts during the retention periods, which are within the normal operating cycle of the Company, usually more than twelve months after the reporting period. Refer to Note 19 for maturity analysis of retentions receivable.

The aging of receivables was as follows:

	<u>December 31</u>	
	2017	2016
Less than 60 days	\$ 1,354,828	\$ 884,520
61-90 days	179,631	127,203
91-120 days	2,345	2,212
121 days and above	<u>979,981</u>	<u>1,181,399</u>
	<u>\$ 2,516,785</u>	<u>\$ 2,195,334</u>

The above aging schedule was based on the ledger date.

As of December 31, 2017 and 2016, impairment loss based on past due or impaired trade receivables are fully recognized.

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ 16,913	\$ 45,943	\$ 62,856
Add: Impairment losses recognized on receivables	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 16,913</u>	<u>\$ 45,943</u>	<u>\$ 62,856</u>
Balance at January 1, 2017	\$ 16,913	\$ 45,943	\$ 62,856
Add: Impairment losses recognized on receivables	<u>128</u>	<u>-</u>	<u>128</u>
Balance at December 31, 2017	<u>\$ 17,041</u>	<u>\$ 45,943</u>	<u>\$ 62,984</u>

10. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONSTRUCTION CONTRACTS

	December 31	
	2017	2016
<u>Amount due from customers for construction contracts</u>		
Construction costs incurred plus recognized profits less recognized losses to date	\$ 16,570,711	\$ 18,064,888
Less: Progress billings	<u>(15,509,794)</u>	<u>(16,726,204)</u>
Amount due from customers for construction contracts	<u>\$ 1,060,917</u>	<u>\$ 1,338,684</u>
<u>Amount due to customers for construction contracts</u>		
Progress billings	\$ 16,329,586	\$ 17,684,084
Less: Construction costs incurred plus recognized profits less recognized losses to date	<u>(15,509,794)</u>	<u>(16,726,204)</u>
Amount due to customers for construction contracts	<u>\$ 819,792</u>	<u>\$ 957,880</u>
Retentions receivable (Note 9)	<u>\$ 749,934</u>	<u>\$ 871,978</u>
Retentions payable (Note 16)	<u>\$ 385,591</u>	<u>\$ 355,038</u>

Refer to Note 19 for details on analysis of construction contracts.

11. INVENTORIES

	December 31	
	2017	2016
Finished goods	\$ 269,475	\$ 143,843
Work-in-process goods	7,655	8,004
Raw materials - steel structure industry	374,447	242,271
Raw materials - manufacturing industry	243,527	154,521
Material parts	<u>32,462</u>	<u>29,499</u>
	<u>\$ 927,566</u>	<u>\$ 578,138</u>

The cost of inventories excluding the steel structure industry recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$2,419,503 thousand and \$1,940,726 thousand, respectively.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in Subsidiaries

Name of Subsidiaries	December 31	
	2017	2016
Hsin Yung Enterprise Corporation	\$ 1,585,252	\$ 1,548,144
Super Max Engineering Enterprise Co., Ltd.	528,524	480,224
Ming Yu Investment Corporation	<u>196,558</u>	<u>170,900</u>
	<u>\$ 2,310,334</u>	<u>\$ 2,199,268</u>

	Proportion of Ownership and Voting Rights	
	December 31	
	2017	2016
Hsin Yung Enterprise Corporation	68.46%	68.46%
Super Max Engineering Enterprise Co., Ltd.	48.12%	48.12%
Ming Yu Investment Corporation	100.00%	100.00%

The investments in subsidiaries accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 was based on the subsidiaries' audited financial statements for the same years.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
Cost							
Balance at January 1, 2016	\$ 1,536,754	\$ 121,361	\$ 1,141,732	\$ 978,928	\$ 48,553	\$ 28,306	\$ 3,855,634
Additions	-	-	-	22,983	7,222	5,437	35,642
Disposals	-	-	-	(2,969)	(300)	(134)	(3,403)
Reclassification	(358,325)	(1,085)	(38,706)	23,015	-	2,889	(372,212)
Balance at December 31, 2016	<u>\$ 1,178,429</u>	<u>\$ 120,276</u>	<u>\$ 1,103,026</u>	<u>\$ 1,021,957</u>	<u>\$ 55,475</u>	<u>\$ 36,498</u>	<u>\$ 3,515,661</u>
Accumulated depreciation and impairment							
Balance at January 1, 2016	\$ 125,915	\$ 114,323	\$ 710,797	\$ 733,056	\$ 33,460	\$ 17,383	\$ 1,734,934
Disposals	-	-	-	(2,969)	(286)	(118)	(3,373)
Depreciation expenses	-	2,159	40,197	51,995	4,612	4,917	103,880
Reclassification	(125,915)	(203)	(31,900)	-	-	203	(157,815)
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 116,279</u>	<u>\$ 719,094</u>	<u>\$ 782,082</u>	<u>\$ 37,786</u>	<u>\$ 22,385</u>	<u>\$ 1,677,626</u>
Carrying amounts at December 31, 2016	<u>\$ 1,178,429</u>	<u>\$ 3,997</u>	<u>\$ 383,932</u>	<u>\$ 239,875</u>	<u>\$ 17,689</u>	<u>\$ 14,113</u>	<u>\$ 1,838,035</u>
Cost							
Balance at January 1, 2017	\$ 1,178,429	\$ 120,276	\$ 1,103,026	\$ 1,021,957	\$ 55,475	\$ 36,498	\$ 3,515,661
Additions	-	-	317	288	5,735	3,296	9,635
Disposals	-	-	(67)	(2,997)	-	(122)	(3,186)
Reclassification	-	3,370	29,965	45,525	-	5,352	84,213
Balance at December 31, 2017	<u>\$ 1,178,429</u>	<u>\$ 123,646</u>	<u>\$ 1,133,241</u>	<u>\$ 1,064,773</u>	<u>\$ 61,210</u>	<u>\$ 45,024</u>	<u>\$ 3,606,323</u>
Accumulated depreciation and impairment							
Balance at January 1, 2017	\$ -	\$ 116,279	\$ 719,094	\$ 782,082	\$ 37,786	\$ 22,385	\$ 1,677,626
Disposals	-	-	(67)	(2,997)	-	(122)	(3,186)
Depreciation expenses	-	1,498	35,148	45,973	5,538	6,107	94,264
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 117,777</u>	<u>\$ 754,175</u>	<u>\$ 825,058</u>	<u>\$ 43,324</u>	<u>\$ 28,370</u>	<u>\$ 1,768,704</u>
Carrying amounts at December 31, 2017	<u>\$ 1,178,429</u>	<u>\$ 5,869</u>	<u>\$ 379,066</u>	<u>\$ 239,715</u>	<u>\$ 17,886</u>	<u>\$ 16,654</u>	<u>\$ 1,837,619</u>

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful lives as follows:

Land Improvements	3-25 years
Buildings	3-55 years
Machinery and equipment	3-10 years
Transportation equipment	5 years
Other equipment	3-5 years

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 27.

14. INVESTMENT PROPERTIES

	Amount
<u>Cost</u>	
Balance at January 1, 2016	\$ 99,396
Additions	-
Reclassification	<u>414,680</u>
Balance at December 31, 2016	<u>\$ 514,076</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2016	\$ (42,635)
Depreciation expenses	(1,541)
Reclassification	<u>(157,815)</u>
Balance at December 31, 2016	<u>\$ (201,991)</u>
Carrying amounts at December 31, 2016	<u>\$ 312,085</u>
<u>Cost</u>	
Balance at January 1, 2017	\$ 514,076
Additions	-
Reclassification	<u>-</u>
Balance at December 31, 2017	<u>\$ 514,076</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2017	\$ (201,991)
Depreciation expenses	(2,312)
Reclassification	<u>-</u>
Balance at December 31, 2017	<u>\$ (204,303)</u>
Carrying amounts at December 31, 2017	<u>\$ 309,773</u>

The investment properties were depreciated using the straight-line method over 6-50 years.

The valuation was arrived by reference to market evidence of transaction prices for similar properties, it's fair value is as followed:

	<u>December 31</u>	
	2017	2016
Fair value	<u>\$ 447,079</u>	<u>\$ 440,301</u>

All of the Company's investment property were held under freehold interests. The investment properties pledged as collateral for bank borrowings were set out in Note 27.

The Company reclassified portion of property, plant and equipment net \$256,865 thousand into investment properties for the year ended December 31, 2016.

15. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2017	2016
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>\$ 50,000</u>	<u>\$ -</u>

The interest rate on bank loans was 0.85% per annum as of December 31, 2017.

b. Short-term bills payable

	<u>December 31</u>	
	2017	2016
Commercial paper	<u>\$ 150,000</u>	<u>\$ -</u>

Outstanding short-term bills payable were as follows:

December 31, 2017

Promissory Institution	Nominal Amount	Discount Amount	Carrying Amount	Interest Rate
<u>Commercial paper</u>				
China Bills Finance Corporation	\$ 50,000	\$ -	\$ 50,000	0.878%
Mega Bills Finance Co., Ltd.	50,000	-	50,000	0.878%
International Bills Finance Corporation	<u>50,000</u>	<u>-</u>	<u>50,000</u>	0.878%
	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	

December 31, 2016

None.

c. Long-term borrowings

	<u>December 31</u>	
	2017	2016
<u>Secured borrowings</u>		
Bank loans (Note 27)	\$ -	\$ 60,000
Less: Current portion	<u>-</u>	<u>-</u>
Long-term borrowings	<u>\$ -</u>	<u>\$ 60,000</u>

The Company signed a contract for five-year secured borrowing credit line with Bank of Taiwan which expires on December 4, 2019. The credit line was 1,000,000 thousand and secured by the Company's freehold land and building as collateral. The annual effective interest rate for the year ended December 31, 2016 was 1.18%. The borrowing has been repaid in full in January 2017.

16. TRADE PAYABLES

The average credit period on purchases of certain goods was 30 to 90 days. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Retentions payable on construction contracts which are included in trade payables and are not bearing interest and are expected to be paid at the end of retention periods, which are within the normal operating cycle of the Company, usually more than twelve months after the reporting period. Refer to Note 19 for maturity analysis of retentions payable.

17. OTHER LIABILITIES

	<u>December 31</u>	
	2017	2016
<u>Current</u>		
Other payables		
Payable for transportation fees	\$ 21,224	\$ 32,077
Payable for annual leave	20,551	14,743
Payable for employees' compensation and remuneration of directors and supervisors	16,356	19,432
Payable for insurance expenses	9,166	7,497
Payable for repairs and maintenance	8,978	19,598
Payable for sales tax	4,155	5,112
Payable for salaries or bonus	3,153	2,234
Payable for professional fees	2,447	2,448
Others	<u>27,181</u>	<u>29,260</u>
	<u>\$ 113,211</u>	<u>\$ 132,401</u>

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 6% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	<u>December 31</u>	
	2017	2016
Present value of defined benefit obligation	\$ 361,486	\$ 340,497
Fair value of plan assets	<u>(279,448)</u>	<u>(260,564)</u>
Net defined benefit liability	<u>\$ 82,038</u>	<u>\$ 79,933</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2016	<u>\$ 310,749</u>	<u>\$ (240,425)</u>	<u>\$ 70,324</u>
Service cost			
Current service cost	6,370	-	6,370
Past service cost	7,007	-	7,007
Net interest expense (income)	<u>4,273</u>	<u>(3,510)</u>	<u>763</u>
Recognized in profit or loss	<u>17,650</u>	<u>(3,510)</u>	<u>14,140</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	1,754	1,754
Actuarial loss - changes in demographic assumptions	8,818	-	8,818
Actuarial loss - changes in financial assumptions	7,490	-	7,490
Actuarial loss - experience adjustments	<u>14,016</u>	<u>-</u>	<u>14,016</u>
Recognized in other comprehensive income	<u>30,324</u>	<u>1,754</u>	<u>32,078</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Contributions from the employer	\$ -	\$ (28,845)	\$ (28,845)
Benefits paid	(10,462)	10,462	-
Company paid	<u>(7,764)</u>	<u>-</u>	<u>(7,764)</u>
Balance at December 31, 2016	<u>340,497</u>	<u>(260,564)</u>	<u>79,933</u>
Service cost			
Current service cost	6,484	-	6,484
Net interest expense (income)	<u>3,831</u>	<u>(3,098)</u>	<u>7,33</u>
Recognized in profit or loss	<u>10,315</u>	<u>(3,098)</u>	<u>7,217</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	551	551
Actuarial loss - changes in demographic assumptions	14,726	-	14,726
Actuarial loss - experience adjustments	<u>9,469</u>	<u>-</u>	<u>9,469</u>
Recognized in other comprehensive income	<u>24,195</u>	<u>551</u>	<u>24,746</u>
Contributions from the employer	-	(28,293)	(28,293)
Benefits paid	(11,956)	11,956	-
Company paid	<u>(1,565)</u>	<u>-</u>	<u>(1,565)</u>
Balance at December 31, 2017	<u>\$ 361,486</u>	<u>\$ (279,448)</u>	<u>\$ 82,038</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Operating cost	\$ 3,871	\$ 3,999
Operating expenses	<u>3,346</u>	<u>10,141</u>
	<u>\$ 7,217</u>	<u>\$ 14,140</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2017	2016
Discount rate(s)	1.125%	1.125%
Expected rate(s) of salary increase	2%	2%
Turnover rate	1.5%-15.0%	3.5%-20.5%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would decrease/increase as follows:

	<u>December 31</u>	
	2017	2016
Discount rate(s)		
0.25% increase	<u>\$ (8,092)</u>	<u>\$ (7,728)</u>
0.25% decrease	<u>\$ 8,377</u>	<u>\$ 7,995</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 8,158</u>	<u>\$ 7,783</u>
0.25% decrease	<u>\$ (7,921)</u>	<u>\$ (7,562)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 28,704</u>	<u>\$ 29,575</u>
The average duration of the defined benefit obligation	9.3 years	9.5 years

19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The current/non-current classification of the Company's assets and liabilities relating to steel structure business was based on its operating cycle. The amount expected to be recovered or settled within one year after reporting period and more than one year after reporting period for related assets and liabilities are as follows:

	<u>December 31</u>		
	<u>Within 1 Year</u>	<u>More Than 1 Year</u>	<u>Total</u>
<u>December 31, 2017</u>			
Assets			
Notes receivable	\$ 204,286	\$ -	\$ 204,286
Trade receivables	1,252,004	296,853	1,548,857
Inventory	384,965	-	384,965
Amount due from customers for construction contracts	<u>644,641</u>	<u>416,276</u>	<u>1,060,917</u>
	<u>\$ 2,485,896</u>	<u>\$ 713,129</u>	<u>\$ 3,199,025</u>

(Continued)

	Within 1 Year	More Than 1 Year	Total
Liabilities			
Trade payables	\$ 605,797	\$ 184,030	\$ 789,827
Amount due to customers for construction contracts	<u>642,193</u>	<u>177,599</u>	<u>819,792</u>
	<u>\$ 1,247,990</u>	<u>\$ 361,629</u>	<u>\$ 1,609,619</u>
 <u>December 31, 2016</u>			
Assets			
Notes receivable	\$ 85,173	\$ -	\$ 85,173
Trade receivables	1,034,901	309,459	1,344,360
Inventory	251,679	-	251,679
Amount due from customers for construction contracts	<u>851,387</u>	<u>487,297</u>	<u>1,338,684</u>
	<u>\$ 2,223,140</u>	<u>\$ 796,756</u>	<u>\$ 3,019,896</u>
 Liabilities			
Notes payable	\$ 306	\$ -	\$ 306
Trade payables	537,059	205,374	742,433
Amount due to customers for construction contracts	<u>628,103</u>	<u>329,777</u>	<u>957,880</u>
	<u>\$ 1,165,468</u>	<u>\$ 535,151</u>	<u>\$ 1,700,619</u>
			(Concluded)

20. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	2017	2016
Number of shares authorized (in thousands)	<u>440,000</u>	<u>440,000</u>
Shares authorized	<u>\$ 4,400,000</u>	<u>\$ 4,400,000</u>
Number of shares issued and fully paid (in thousands)	<u>405,426</u>	<u>405,426</u>
Shares issued	<u>\$ 4,054,260</u>	<u>\$ 4,054,260</u>

b. Capital surplus

	<u>December 31</u>	
	2017	2016
May be used to offset a deficit, distributed as <u>cash dividends, or transferred to share capital</u>		
Arising from treasury share transactions (1)	\$ 198,030	\$ 168,011
Arising from consolidation excess (2)	<u>52,736</u>	<u>52,736</u>
	<u>\$ 250,766</u>	<u>\$ 220,747</u>

- 1) Such capital surplus may only be used to offset a deficit.
- 2) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on May 26, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation and remuneration of directors and supervisors.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to d. employee benefits expense in Note 22.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2016 and 2015 have been approved in the shareholders' meetings on May 26, 2017 and May 26, 2016, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	2016	2015	2016	2015
Legal reserve	\$ 73,898	\$ 66,007	\$ -	\$ -
Cash dividends	689,224	608,139	1.7	1.5

The appropriations of earnings for 2017 had been proposed by the Company's board of directors on March 20, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 119,348	\$ -
Cash dividends	810,852	2

The appropriations of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held on May 29, 2018.

d. Treasury shares

The Company's shares held by its subsidiaries at the end of December 31, 2017 and 2016 were as follows:

Name of Subsidiary	Number of Shares Held (In Thousands of Shares)	Carrying Amount
Ming Yu Investment Corporation	17,658	\$ 305,074

The Company shall not exercise shareholders' rights on these shares, such as rights to dividends and to vote. The subsidiaries holding treasury shares, however, retain shareholders' rights, except the rights to participate in any share issuance for cash and to vote.

21. REVENUE

	<u>For the Year Ended December 31</u>	
	2017	2016
Revenue from the sale of goods	\$ 2,489,726	\$ 1,983,842
Construction contract revenue	<u>6,088,726</u>	<u>5,837,152</u>
	<u>\$ 8,578,452</u>	<u>\$ 7,820,994</u>

22. NET PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS

Net profit (loss) from continuing operations

a. Other income

	<u>For the Year Ended December 31</u>	
	2017	2016
Rental income	\$ 12,643	\$ 13,772
Interest income	2,735	11,048
Dividends	107,595	86,805
Others	<u>251,689</u>	<u>30,002</u>
	<u>\$ 374,662</u>	<u>\$ 141,627</u>

b. Other gains and losses

	<u>For the Year Ended December 31</u>	
	2017	2016
Gain on disposal of property, plant and equipment	\$ 784	\$ 753
Net foreign exchange gains/(losses)	(2,311)	(2,194)
Others	<u>(942)</u>	<u>(818)</u>
	<u>\$ (2,469)</u>	<u>\$ (2,259)</u>

c. Depreciation and amortization

	<u>For the Year Ended December 31</u>	
	2017	2016
Property, plant and equipment	\$ 94,264	\$ 103,880
Investment property	2,312	1,541
Intangible assets	<u>5,363</u>	<u>3,923</u>
	<u>\$ 101,939</u>	<u>\$ 109,344</u>
 An analysis of deprecation by function		
Operating costs	\$ 91,482	\$ 100,952
Operating expenses	<u>5,094</u>	<u>4,469</u>
	<u>\$ 96,576</u>	<u>\$ 105,421</u>
 An analysis of amortization by function		
Operating costs	\$ 3,371	\$ 1,845
Operating expenses	<u>1,992</u>	<u>2,078</u>
	<u>\$ 5,363</u>	<u>\$ 3,923</u>

d. Employee benefits expense

	<u>For the Year Ended December 31</u>	
	2017	2016
Post-employment benefits		
Defined contribution plans	\$ 11,525	\$ 11,383
Defined benefit plans (Note 18)	7,217	14,140
Other employee benefits	<u>448,210</u>	<u>389,861</u>
Total employee benefits expense	<u>\$ 466,952</u>	<u>\$ 415,384</u>
 An analysis of employee benefits expense by function		
Operating costs	\$ 241,702	\$ 218,695
Operating expenses	<u>225,250</u>	<u>196,689</u>
	<u>\$ 466,952</u>	<u>\$ 415,384</u>

Employees' compensation and remuneration of directors and supervisors for 2017 and 2016

According to the amended Articles of Incorporation of the Company approved by the shareholders in their meeting in May 2017, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 0.5% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Company's board of directors on March 20, 2018 and March 29, 2017, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Employees' compensation	0.51%	0.63%
Remuneration of directors and supervisors	0.80%	0.88%

Amount

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
	<u>Cash</u>	<u>Cash</u>
Employees' compensation	\$ 6,356	\$ 5,032
Remuneration of directors and supervisors	10,000	7,000

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate in the following year.

The Company held a board of directors' meeting on March 29, 2017 that resulted in the actual amounts of the employees' compensation and remuneration of directors and supervisors paid for 2016 different from the amounts recognized in the financial statements for the year ended December 31, 2016. The differences were adjusted to profit and loss for the year ended December 31, 2017.

	<u>For the Year Ended December 31, 2016</u>	
	<u>Employees' Compensation</u>	<u>Remuneration of Directors and Supervisors</u>
Amounts approved in the board of directors' meeting	<u>\$ 5,032</u>	<u>\$ 7,000</u>
Amounts recognized in the annual financial statements	<u>\$ 5,032</u>	<u>\$ 14,000</u>

23. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of tax expense recognized in profit or loss

	<u>For the Year Ended December 31</u>	
	2017	2016
Current tax		
In respect of the current year	\$ 56,101	\$ 38,272
Adjustments for prior years	<u>(25,491)</u>	<u>(3,260)</u>
	30,610	35,012
Deferred tax		
In respect of the current year	<u>2,862</u>	<u>3,049</u>
Income tax expense recognized in profit or loss	<u>\$ 33,472</u>	<u>\$ 38,061</u>

A reconciliation of accounting profit and income tax expenses is as follows:

	<u>For the Year Ended December 31</u>	
	2017	2016
Profit before tax from continuing operations	<u>\$ 1,226,953</u>	<u>\$ 777,043</u>
Income tax expense calculated at the statutory rate	\$ 208,582	\$ 132,097
Nondeductible expenses in determining taxable income	(19)	(1,523)
Tax-exempt income	(119,762)	(89,764)
Unrecognized deductible temporary differences	(29,838)	511
Adjustments for prior years' tax	<u>(25,491)</u>	<u>(3,260)</u>
Income tax expense recognized in profit or loss	<u>\$ 33,472</u>	<u>\$ 38,061</u>

The applicable corporate income tax rate used by the entities in the ROC is 17%.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by \$2,393 thousand and \$0 thousand, respectively, in 2018.

As the status of 2018 appropriations of earnings is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Current tax assets and liabilities

	<u>December 31</u>	
	2017	2016
Current tax assets		
Tax refund receivable	<u>\$ 21,772</u>	<u>\$ 21,772</u>
Current tax liabilities		
Income tax payable	<u>\$ 49,613</u>	<u>\$ 35,325</u>

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plans	\$ 9,708	\$ (3,849)	\$ 4,207	\$ 10,066
Payable for annual leave	<u>2,506</u>	<u>987</u>	<u>-</u>	<u>3,493</u>
	<u>\$ 12,214</u>	<u>\$ (2,862)</u>	<u>\$ 4,207</u>	<u>\$ 13,559</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	<u>\$ 65,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,995</u>

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plans	\$ 8,074	\$ (3,819)	\$ 5,453	\$ 9,708
Payable for annual leave	<u>1,736</u>	<u>770</u>	<u>-</u>	<u>2,506</u>
	<u>\$ 9,810</u>	<u>\$ (3,049)</u>	<u>\$ 5,453</u>	<u>\$ 12,214</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Reserve for land value increment tax	<u>\$ 65,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,995</u>

- d. Deductible temporary differences for which no deferred tax assets have been recognized in the balance sheets

	<u>December 31</u>	
	2017	2016
Deductible temporary differences		
Bad debts in excess of the limit	\$ 512,958	\$ 517,383
Impairment loss on financial assets	145,079	476,619
Loss on market price decline	41,982	41,982
Unrealized gain on the transactions with subsidiaries	7,912	9,969
Others	<u>624</u>	<u>624</u>
	<u>\$ 708,555</u>	<u>\$ 1,046,577</u>

- e. Integrated income tax

	<u>December 31</u>	
	2017	2016
Unappropriated earnings generated on and after January 1, 1998	<u>\$ 6,076,493</u>	<u>\$ 5,671,212</u>
Imputation credits accounts	<u>\$ 1,045,029</u>	<u>\$ 1,037,994</u>
Creditable ratio for distribution of earning	Note	20.70%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

- f. Income tax assessments

The income tax of the Company through 2015 have been assessed by the tax authorities.

24. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued capital, reserves, retained earnings and other equity).

The Company is not subject to any externally imposed capital requirements.

25. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments that are not measured at fair value

Management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy as at December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Equity securities listed in ROC	\$ 4,359,552	\$ -	\$ -	\$ 4,359,552

Fair value hierarchy as at December 31, 2016

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Equity securities listed in ROC	\$ 3,674,990	\$ -	\$ -	\$ 3,674,990

There were no transfers between Levels 1 and 2 in the current and prior periods.

c. Categories of financial instruments

	<u>December 31</u>	
	2017	2016
<u>Financial assets</u>		
Loans and receivables (1)	\$ 2,976,875	\$ 2,417,673
Available-for-sale financial assets (2)	5,258,581	4,573,859
<u>Financial liabilities</u>		
Financial liabilities measured at amortized cost (3)	1,607,036	1,292,892

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, refundable deposits, note receivables, and trade and other receivables.
- 2) The balances included the carrying amount of available-for-sale financial assets and financial assets measured at cost.
- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term bills payables, short-term and long-term loans (including current portion of long-term borrowings), trade and other payables, and guarantee deposits received.

d. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, trade receivable, trade payables, and borrowings. The Company's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

There had been no change to the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. The foreign currency fluctuation shall affect the financial instruments market value due to the Company's policy of hedges in pre-purchase of foreign forward exchanges.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 29.

Sensitivity analysis

The Company was mainly exposed to the Currency USD.

The following table details the Company's sensitivity to a 5% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A negative number below indicates a decrease in pre-tax profit and other equity associated with New Taiwan dollars strengthen 5% against the relevant currency. For a 5% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity.

	Currency USD Impact	
	For the Year Ended December 31	
	2017	2016
Profit or loss	\$ (190)*	\$ (2,463)*

* This was mainly attributable to the exposure outstanding on Currency USD demand deposits and trade receivables, which were not hedged at the end of the reporting period.

b) Interest rate risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at both fixed and floating interest rates.

The carrying amount of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2017	2016
Fair value interest rate risk		
Financial assets	\$ 70,350	\$ 76,150
Financial liabilities	200,000	-
Cash flow interest rate risk		
Financial assets	115,277	68,463
Financial liabilities	-	60,000

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2017 and 2016 would increase/decrease by \$576 thousand and \$42 thousand, respectively, which was mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings, and demand deposits.

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities. The Company's equity price risk was mainly concentrated on equity instruments operating in Taiwan industry sector quoted in the Taiwan Stock Exchange.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 15% higher/lower, pre-tax profit for years ended December 31, 2017 and 2016 would have increased/decreased by \$653,933 thousand and \$551,249 thousand, respectively.

The Company's sensitivity to equity prices decreased because they had influenced on fluctuations in market price.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to failure of counterparties to discharge an obligation and financial guarantees provided by the Company could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

In order to minimize credit risk, management of the Company is responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Company's credit risk was significantly reduced.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the Company had available unutilized bank loan facilities set out in (b) below.

a) Liquidity and interest risk rate tables for non-derivative financial liabilities

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2017

	Less than 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 1,232,449	\$ 184,030	\$ -
Variable interest rate liabilities	-	-	-
Fixed interest rate liabilities	<u>200,086</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,432,535</u>	<u>\$ 184,030</u>	<u>\$ -</u>

December 31, 2016

	Less than 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 1,035,269	\$ 205,374	\$ -
Variable interest rate liabilities	60,389	-	-
Fixed interest rate liabilities	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,095,658</u>	<u>\$ 205,374</u>	<u>\$ -</u>

b) Financing facilities

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Unsecured bank overdraft facility</u>		
Amount used	\$ 200,000	\$ -
Amount unused	<u>7,245,000</u>	<u>7,445,000</u>
	<u>\$ 7,445,000</u>	<u>\$ 7,445,000</u>
<u>Secured bank overdraft facility</u>		
Amount used	\$ -	\$ 60,000
Amount unused	<u>2,330,000</u>	<u>2,270,000</u>
	<u>\$ 2,330,000</u>	<u>\$ 2,330,000</u>

26. TRANSACTIONS WITH RELATED PARTIES

The Company's major shareholder was Evergreen International Corporation, which held 30% of ordinary shares of the Company as of December 31, 2017 and 2016.

Besides as disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Sales

Related Party Categories	For the Year Ended December 31	
	2017	2016
Investors that have significant influence over the Company	\$ 146,522	\$ 171,860
Others	<u>256,919</u>	<u>343,303</u>
	<u>\$ 403,441</u>	<u>\$ 515,163</u>

b. Miscellaneous Income

Related Party Categories	For the Year Ended December 31	
	2017	2016
Investors that have significant influence over the Company	\$ -	\$ 17
Subsidiaries	<u>3,233</u>	<u>6,970</u>
	<u>\$ 3,233</u>	<u>\$ 6,987</u>

c. Purchases of goods and expenses

Related Party Categories	For the Year Ended December 31	
	2017	2016
Investors that have significant influence over the Company	\$ 15,820	\$ 22,918
Subsidiaries	36	36
Others	<u>13,431</u>	<u>32,658</u>
	<u>\$ 29,287</u>	<u>\$ 55,612</u>

d. Receivables from related parties

Trade receivable

Related Party Categories	December 31	
	2017	2016
Investors that have significant influence over the Company	\$ 25,913	\$ 26,400
Others	<u>224,702</u>	<u>129,644</u>
	<u>\$ 250,615</u>	<u>\$ 156,044</u>

Other receivable

	<u>December 31</u>	
	2017	2016
Related Party Categories		
Subsidiaries	\$ <u>69</u>	\$ <u>69</u>

The outstanding trade receivables from related parties are unsecured.

e. Payables to related parties

Other payable

	<u>December 31</u>	
	2017	2016
Related Party Categories		
Investors that have significant influence over the Company	\$ 2,185	\$ 2,505
Subsidiaries	6	6
Others	<u>2,331</u>	<u>2,212</u>
	<u>\$ 4,522</u>	<u>\$ 4,723</u>

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	<u>For the Year Ended December 31</u>	
	2017	2016
Short-term employee benefits	\$ 12,851	\$ 19,018
Post-employment benefits	<u>454</u>	<u>7,109</u>
	<u>\$ 13,305</u>	<u>\$ 26,127</u>

27. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, provisional attachment and performance guarantees, etc.:

	<u>December 31</u>	
	2017	2016
Property, plant, and equipment, net	\$ 1,563,363	\$ 1,566,358
Investment properties	274,033	276,346
Pledge deposits (classified as other financial assets)	<u>9,400</u>	<u>9,300</u>
	<u>\$ 1,846,796</u>	<u>\$ 1,852,004</u>

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2017 and 2016 were as follows:

As of December 31, 2017 and 2016, unused letters of credit for purchasing of materials amount as follows:

Currency	December 31	
	2017	2016
USD	\$ 1,234	\$ 866
NTD	\$ 448,558	\$ 419,272

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

(In Thousands of Dollars Responding Currencies)

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 720	29.998 (USD:NTD)	\$ 21,597
<u>Financial liabilities</u>			
Monetary items			
USD	593	30.033 (USD:NTD)	17,794

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 2,033	32.191 (USD:NTD)	\$ 65,449
<u>Financial liabilities</u>			
Monetary items			
USD	513	31.549 (USD:NTD)	16,195