

Kenda Rubber Ind. Co., Ltd. and Subsidiaries

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

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Kenda Rubber Ind. Co., Ltd. as of and for the year ended December 31, 2017, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Kenda Rubber Ind. Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Kenda Rubber Ind. Co., Ltd.

Yin Ming Yang

March 22, 2018

Independent Auditors' Report

The Board of Directors and Shareholders
KENDA RUBBER INDUSTRIAL COMPANY LIMITED

Opinion

We have audited the accompanying consolidated financial statements of Kenda Rubber Ind. Co., Ltd and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In our opinion, based on our audits and the reports of the other auditors, (refer to the Other Matter), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kenda Rubber Ind. Co., Ltd and subsidiaries as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS, and Interpretations of IAS endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Kenda Rubber Ind. Co., Ltd and subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit

of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for Kenda Rubber Ind. Co., Ltd and subsidiaries consolidated financial statements for the year ended December 31, 2017 are stated as follows:

1. Business Combinations

KGI acquired 100% equity of STARCO Europe A/S on October 2, 2017 with cash in the amount of NT\$ 303,742 thousand and with a contingent consideration in the amount of NT\$(57,425) thousand. Acquisition method is adopted accordingly. Related purchase price allocation may refer to note 6(35). The aforementioned acquisition is considered as a significant transaction due to the purchase price allocation might be subject to significant judgments and estimations of the management. Therefore, we have listed the transaction as one of the key audit matters.

Our audit procedures included examining related meeting minutes and documents of the BOD's meeting to make sure the investment has been proceeded according to the resolutions. We also reviewed the acquisition agreements and examined original vouchers of the payments, including related cost of the combination, to assure the correctness of financial statements presentation. We obtained the purchase price allocation report issued by an independent external appraiser and evaluated his independence as well as reviewed the reasonableness of the related assumptions adopted and the calculation of the fair value of net assets acquired.

2. Deferred tax

Kenda Rubber Ind. Co., Ltd and subsidiaries recognized deferred tax assets NT\$267,091 and deferred tax liabilities NT\$588,731 as of December 31, 2017. The recognition and valuation of deferred tax assets are decided by the management judgmentally depending on the future taxable profits and tax return filing approved by local tax authorities. The assessment of deferred tax assets is complex and judgmental and thus we have determined deferred tax assets to be one of the key audit matters.

Our audit procedures included obtaining the profit and loss budget to assess the adequacy of revenue growth rate, gross margin and operating expenses estimated. We also analyzed whether the trend of the profit and loss budget was reasonable or not when compared with the historical results. We compared related budget with actual results up to date to evaluate the ability and possibility of the Group to achieve the budget and then evaluated the adequacy of deferred tax assets recognized.

Other Matter

We did not audit the financial statements of certain subsidiaries. Those financial statements were audited by other auditors, and our opinion, insofar as it relates to those subsidiaries, is based solely on the reports of the other auditors. As of December 31, 2017 and 2016, the assets of these subsidiaries amounted to NT\$7,864,545 and NT\$ 4,368,163 thousand, respectively, constituting 19% and 10%, respectively, of the consolidated total assets. For the years ended December 31, 2017 and 2016, the net revenue of these subsidiaries amounted to NT\$ 10,400,280 and NT\$ 9,673,738 thousand, respectively, constituting 34% and 33%, respectively, of the consolidated operating revenue. The balance of investment accounted for using equity method was NT\$65,370 thousand, constituting 0% of consolidated total assets as of December 31, 2017, and the share of profit (loss) of associates accounted for using equity method was NT\$1,015 thousand, constituting 0% of consolidated total income before tax for the year ended December 31, 2017.

We have also audited the parent company only financial statements of Kenda Rubber Ind. Co., Ltd as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, Interpretations of IFRS, and Interpretations of IAS endorsed and issued into effect by Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including supervisors) are responsible for overseeing the financial reporting processes of Kenda Rubber Ind. Co., Ltd. and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Kenda Rubber Ind. Co., Ltd. and its subsidiaries' internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Kenda Rubber Ind. Co., Ltd and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However future events or conditions may cause Kenda Rubber Ind. Co., Ltd and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the years ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe Horwath (TW) CPAs

The Republic of China



March 22, 2018

Notice to Readers

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

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

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

		December 31,2017		December 31,2016	
	NOTES	Amount	%	Amount	%
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	6(1)	\$ 10,008,094	24	\$ 15,214,421	36
Financial assets at fair value through profit or loss - current	6(2)	1,062	-	844	-
Notes receivable, net	6(3)	270,369	1	458,305	1
Accounts receivable, net	6(4), 8	3,758,062	9	3,242,071	8
Accounts receivable, net - related parties	7, 8	6,493	-	9,484	-
Other receivables	6(5), 7	261,924	1	120,342	-
Current income tax assets	6(33)	129,819	-	79,962	-
Inventories, net	5, 6(6), 8	7,315,871	18	5,617,286	14
Prepaid expenses		628,322	2	370,802	1
Assets included in disposal groups held for sale	6(7)	75,514	-	-	-
Other financial assets - current	6(8)	2,734,314	7	3,585,518	9
Other current assets		73,422	-	3,038	-
Total current assets		25,263,266	62	28,702,073	69
NONCURRENT ASSETS					
Financial assets carried at cost - noncurrent	6(9)	120,917	-	125,157	-
Investments accounted for using equity method	6(10)	65,370	-	-	-
Property, plant and equipment	5, 6(11), 8	12,078,899	29	10,529,959	25
Intangible assets	5, 6(12), 8	65,565	-	66,224	-
Deferred income tax assets	5, 6(32)	267,091	1	169,461	-
Long-term prepaid rent	6(13)	1,233,443	3	1,328,201	3
Other noncurrent assets	6(14)	1,858,491	5	956,317	3
Total noncurrent assets		15,689,776	38	13,175,319	31
TOTAL ASSETS		\$ 40,953,042	100	\$ 41,877,392	100
LIABILITIES AND EQUITIES					
CURRENT LIABILITIES					
Short-term loans	6(15)	\$ 1,307,904	3	\$ 596,461	1
Short-term notes and bills payable	6(16)	149,407	-	149,472	-
Notes payable		149,747	-	33,066	-
Accounts payable		2,513,289	6	1,888,691	5
Accounts payable - related parties	7	144,819	-	84,777	-
Other payables	6(17), 7	2,024,136	5	1,993,477	5
Current income tax liabilities	6(32)	184,950	1	202,716	1
Provisions	6(18)	44,640	-	33,039	-
Liabilities directly associated with disposal groups held for sale	6(7)	11,057	-	-	-
Advance payments		254,850	1	304,820	1
Long-term loan due within a year	6(19)	2,586,507	6	2,888,218	7
Other current liabilities		9,334	-	8,187	-
Total current liabilities		9,380,640	22	8,182,924	20

(Continued)

		December 31,2017		December 31,2016	
LIABILITIES AND EQUITIES	NOTES	Amount	%	Amount	%
NONCURRENT LIABILITIES					
Long-term loans	6(19)	\$ 10,963,410	27	\$ 10,274,632	25
Deferred income tax liabilities	6(32)	588,731	2	1,037,943	2
Net defined benefit liability - noncurrent	5, 6(20)	348,464	1	356,018	1
Other noncurrent liabilities	6(21)	473,985	1	485,229	1
Total noncurrent liabilities		12,374,590	31	12,153,822	29
Total liabilities		21,755,230	53	20,336,746	49
EQUITIES ATTRIBUTABLE TO OWNERS OF PARENT					
Capital stocks	6(22)	8,744,300	21	8,744,300	21
Capital surplus	6(23)	41	-	41	-
Retained earnings	6(24)				
Legal reserve		3,011,229	7	2,701,985	6
Special reserve		694,585	2	719,550	2
Unappropriated retained earnings		7,825,026	20	9,551,481	22
Other equities	6(25)	(1,077,395)	(3)	(176,741)	-
Equity attributable to owners of parent		19,197,786	47	21,540,616	51
NON-CONTROLLING INTEREST	6(26)	26	-	30	-
Total equity		19,197,812	47	21,540,646	51
TOTAL LIABILITIES AND EQUITIES		\$ 40,953,042	100	\$ 41,877,392	100

The accompanying notes are an integral part of the financial statements.
Please refer to the independent auditors' report dated March. 22, 2018.

(Concluded)

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	NOTES	2017		2016	
		Amount	%	Amount	%
NET REVENUE	6(27), 7	\$ 30,532,686	100	\$ 29,493,628	100
COST OF REVENUE	6(6, 28), 7	(24,470,543)	(80)	(21,521,845)	(73)
GROSS PROFIT		6,062,143	20	7,971,783	27
OPERATING EXPENSES	6(28), 7				
Marketing expenses		(2,525,393)	(8)	(2,463,340)	(8)
General and administrative expenses		(1,165,009)	(4)	(1,015,723)	(4)
Research and development expenses		(1,192,307)	(4)	(1,141,542)	(4)
Total operating expenses		(4,882,709)	(16)	(4,620,605)	(16)
OPERATING INCOME(LOSS)		1,179,434	4	3,351,178	11
NONOPERATING INCOME AND EXPENSES					
Other income	6(29), 7	346,886	1	285,553	1
Other gains and losses	6(30)	(674,505)	(2)	333,198	1
Financial costs	6(31)	(193,421)	(1)	(170,034)	(1)
Share of profit of associates accounted for using equity method		1,015	-	-	-
Total nonoperating income and expenses		(520,025)	(2)	448,717	1
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		659,409	2	3,799,895	12
INCOME TAX BENEFIT (EXPENSE)	6(32)	(324,814)	(1)	(707,452)	(2)
NET INCOME (LOSS) OF CONTINUING OPERATIONS		334,595	1	3,092,443	10
PROFIT (LOSS) OF DISCONTINUED OPERATIONS		(5,630)	-	-	-
NET INCOME (LOSS)		328,965	1	3,092,443	10
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation	6(20)	(26,846)	-	7,507	-
Income tax benefit (expense) related to items that will not be reclassified subsequently	6(32)	4,563	-	(1,276)	-
Items that may be classified subsequently to profit or loss:					
Exchange differences arising on translation of foreign operations	6(33)	(1,085,128)	(4)	(1,636,623)	(5)
Income tax benefit (expense) related to items that may be reclassified subsequently	6(32,33)	184,472	1	278,226	1
Other comprehensive income (loss) for the year, net of income tax		(922,939)	(3)	(1,352,166)	(4)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		\$ (593,974)	(2)	\$ 1,740,277	6

(Continued)

		2017		2016	
	NOTES	Amount	%	Amount	%
NET INCOME (LOSS) ATTRIBUTTABLE TO:					
Shareholders of the parnet		\$ 328,967	1	\$ 3,092,443	10
Noncontrolling interests		(2)	-	-	-
		<u>\$ 328,965</u>	<u>1</u>	<u>\$ 3,092,443</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME (LOSS)					
ATTIRBUTABLE TO:					
Shareholders of the parnet		(593,970)	(2)	1,740,277	6
Noncontrolling interests		(4)	-	-	-
		<u>\$ (593,974)</u>	<u>(2)</u>	<u>\$ 1,740,277</u>	<u>6</u>
EARNINGS PER SHARE FROM					
CONTINUING AND DISCONTINUED OPERATIONS					
(IN DOLLARS)					
Basic earnings per share	6(34)	<u>\$ 0.38</u>		<u>\$ 3.54</u>	
Diluted earnings per share	6(34)	<u>\$ 0.38</u>		<u>\$ 3.53</u>	
EARNINGS PER SHARE FROM					
CONTINUING OPERATIONS (IN DOLLARS)					
Basic earnings per share	6(34)	<u>\$ 0.38</u>		<u>\$ 3.54</u>	
Diluted earnings per share	6(34)	<u>\$ 0.38</u>		<u>\$ 3.53</u>	

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

Please refer to the independent auditors' report dated March.22, 2018.

(Concluded)

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES

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

	Retained Earnings					Other Equities	Total	Non-controlling Interest	Total
	Capital Stocks	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations			
BALANCE, JANUARY 1, 2016	\$ 8,572,800	41	2,355,287	719,550	8,857,021	1,181,656	\$ 21,686,355	\$ 30	\$ 21,686,385
Appropriations of prior year's earnings									
Legal reserve	-	-	346,698	-	(346,698)	-	-	-	-
Cash dividends to shareholders - NT\$2.20 per share	-	-	-	-	(1,886,016)	-	(1,886,016)	-	(1,886,016)
Stock dividends to shareholders - NT\$0.20 per share	171,500	-	-	-	(171,500)	-	-	-	-
Net income in 2016	-	-	-	-	3,092,443	-	3,092,443	-	3,092,443
Other comprehensive income in 2016, net of tax	-	-	-	-	6,231	(1,358,397)	(1,352,166)	-	(1,352,166)
BALANCE, DECEMBER 31, 2016	8,744,300	41	2,701,985	719,550	9,551,481	(176,741)	21,540,616	30	21,540,646
Appropriations of prior year's earnings									
Legal reserve	-	-	309,244	-	(309,244)	-	-	-	-
Special reserve	-	-	-	(24,965)	24,965	-	-	-	-
Cash dividends to shareholders - NT\$2.00 per share	-	-	-	-	(1,748,860)	-	(1,748,860)	-	(1,748,860)
Net income in 2017	-	-	-	-	328,967	-	328,967	(2)	328,965
Other comprehensive income in 2017, net of tax	-	-	-	-	(22,283)	(900,654)	(922,937)	(2)	(922,939)
BALANCE, DECEMBER 31, 2017	<u>\$ 8,744,300</u>	<u>\$ 41</u>	<u>\$ 3,011,229</u>	<u>\$ 694,585</u>	<u>\$ 7,825,026</u>	<u>\$ (1,077,395)</u>	<u>\$ 19,197,786</u>	<u>\$ 26</u>	<u>\$ 19,197,812</u>

The accompanying notes are an integral part of the financial statements.
Please refer to the independent auditors' report dated March. 22, 2018.

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) before tax	\$ 659,409	\$ 3,799,895
Loss on discontinued operations	(5,630)	-
Adjustments for:		
Adjustments to reconcile profit (loss)		
Depreciation	1,068,426	1,067,598
Amortization	43,840	40,315
(Reversal) provision for bad debt expense	18,075	2,321
Gain on financial assets at fair value through profit or loss	(218)	18
Interest expense	193,421	170,034
Interest income	(134,482)	(124,767)
Dividend income	(40,656)	(54,690)
Loss on disposal of property, plant and equipment	(1,442)	(3,580)
Share of profit of associates accounted for using equity method	(1,015)	-
Gain from bargain purchase	(14,900)	-
Net changes in operating assets and liabilities		
Notes receivable	176,128	(141,567)
Accounts receivable	(215,559)	(114,707)
Accounts receivable - related parties	2,818	4,788
Other receivables	(687)	(12,724)
Inventories	(1,295,404)	(40,273)
Prepaid expenses	(282,632)	123,071
Other current assets	(8,813)	(1,135)
Notes payable	115,894	28,313
Accounts payable	191,519	544,555
Accounts payable - related parties	61,683	13,649
Other payables	(321,095)	151,389
Provisions - current	14,471	(21,790)
Advanced payments	(43,759)	68,532
Other current liabilities	1,155	163
Net defined benefit liability	(34,400)	(195,553)
Cash provided from operations	146,147	5,303,855
Interest received	141,281	141,774
Dividend received	40,656	54,690
Interest paid	(194,681)	(169,880)
Income taxes paid	(784,676)	(855,032)
Net cash provided (used) in operating activities	(651,273)	4,475,407

(Continued)

	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Refunded shares of capital reductions at cost	\$ -	\$ 4,946
Acquisition of property, plant and equipment	(1,273,034)	(1,216,315)
Proceeds from disposal of Property, plant and equipment	44,022	45,255
Refundable deposits refunded	27,618	(4,339)
Acquisition of intangible assets	(17,319)	(8,031)
Increase in other financial assets	768,767	(280,808)
Increase in other noncurrent assets	(356,321)	(144,209)
Net cash used in acquisition of subsidiaries (net of cash acquired)	(154,254)	-
Increase in prepaid equipment	(1,647,467)	(816,849)
Increase in land use right	(18,401)	-
Net cash used in investing activities	<u>(2,626,389)</u>	<u>(2,420,350)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	(127,268)	(395,638)
Proceeds from long-term debt	3,720,000	5,060,590
Repayment of long-term debt	(3,421,729)	(3,294,804)
Increase in other noncurrent liabilities	(1,318)	5,353
Cash dividends paid	(1,748,860)	(1,886,016)
Net cash used in financing activities	<u>(1,579,175)</u>	<u>(510,515)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(347,880)</u>	<u>(629,894)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(5,204,717)	914,648
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>15,214,421</u>	<u>14,299,773</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,009,704</u>	<u>\$ 15,214,421</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents of consolidated financial statements	\$ 10,008,094	\$ 15,214,421
Cash and cash equivalents attributed to disposal groups held for sale	<u>1,610</u>	<u>-</u>
	<u>\$ 10,009,704</u>	<u>\$ 15,214,421</u>

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

Please refer to the independent auditors' report dated March. 22, 2018.

(Concluded)

KENDA RUBBER IND. CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in Thousands of New Taiwan Dollars, Except Stated Otherwise)

1. GENERAL INFORMATION

Kenda Rubber Ind. Co., Ltd. (the Company) was incorporated of Republic of China (the “R.O.C”) in March, 1962, and registered at No. 146, Sec. 1, Zhongshan Rd., Yuanlin Township, Changhua County. The Company engages mainly in manufacturing and trading bicycles, scooters, industrial trucks and cars’ tubeless and tires and other rubber products, tire machines and carbon fiber products. The Company has been listed on the Taiwan Stock Exchange starting from December 20th, 1990. The principal operating activities of the Company and its subsidiaries (collectively referred herein as the “Group”) are described aforementioned and in Note 4(3) B.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors on March 22, 2018.

3. APPLICATION OF NEW, AMENDED STANDARDS AND INTERPRETATIONS

(1) Effect of the adoption of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC):

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

A. Amendments to IAS 36, “Recoverable Amount Disclosures for Non-Financial Assets”

The amendments to IAS 36 clarify that the Group is required to disclose the recoverable amount of an asset or a cash-generating unit when an impairment loss on the asset recognized or reversed is material. Furthermore, if the recoverable amount for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy and the valuation technique and key assumptions used to measure the fair value.

The Group expects the aforementioned amendments will result in a broader disclosure of recoverable amount of non-financial assets.

B. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

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

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

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

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and impairment of goodwill are enhanced.

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

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

New Standards, Interpretations and Amendments	Effective Date Issued by IASB (Note 1)
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 Financial Instruments	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15"	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
Annual Improvements to IFRSs 2014 – 2016 Cycle	Note 2

Note 1: Unless stated otherwise, the above new, amended and revised standards and interpretations are effective for annual periods beginning on or after the respective effective dates.

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

Except for the following, the initial application of the above new standards and interpretations would not have any material impact on the Group's accounting policies:

A. IFRS 9 "Financial Instruments"

(a) Recognition and measurement of financial assets

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

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

- i. If the objective of the Group's business model is to hold the financial asset to collect the contractual cash flows, such assets are measured at the amortized cost. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment and the impairment loss or reversal of impairment loss should be recognized in profit and loss.
- ii. If the objective of the Group's business model is to hold the financial asset both to collect the contractual cash flows and to sell the financial assets, such assets are measured at fair value through other comprehensive income. Interest revenue should be recognized in profit or loss by using the effective interest method and continuously assessed for impairment, impairment gains or losses and foreign exchange gains and losses are recognized in profit or loss, and other changes in fair value are recognized in other comprehensive gains and losses. When such financial asset is derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

The other financial assets which do not meet the aforementioned criteria should be measured at the fair value through profit or loss. However, the Group may irrevocably designate an investment in equity instruments that is not held for trading as measured at fair value through other comprehensive income. All relevant gains and losses shall be recognized in other comprehensive income, except for dividends which are 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. According to the facts and circumstances of the Group's financial assets that existed as of December 31, 2017, the impacts of IFRS 9 on the classification and measurement of financial assets are as follows:

- i. Equity investment of unlisted stocks originally measured at cost will be classified as fair value option through other comprehensive income according to IFRS 9. The fair value gains or losses accumulated in othe equity would be reclassified directly to retained earnings instead of being reclassified to profit or loss on disposal of those equity investments.

(b) Impairment of financial assets

IFRS 9 adds a new expected loss impairment model to measure the impairment of financial assets. A loss allowance for expected credit losses should be recognized on financial assets measured at amortized cost and financial assets mandatorily measured at fair value through other comprehensive income. If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group should measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition and is not deemed to be a low credit risk, the Group should measure the loss allowance for that financial instrument at an amount equal to the lifetime expected credit losses. The Group should always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

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 loss allowance with a corresponding gain or loss recognized in profit or loss.

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

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 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 as of January 1, 2018 of retrospective application of the requirements for the classification, measurement, and impairment of financial assets is set out below:

Items	December 31, 2017	January 1, 2018	
	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
Financial assets measured at cost - non-current	\$ 120,917	\$ (120,917)	\$ -
Financial assets at fair value through other comprehensive income - non-current	-	299,131	299,131
Total effect on assets	<u>\$ 120,917</u>	<u>\$ 178,214</u>	<u>\$ 299,131</u>
Retained earnings	\$ 7,825,026	\$ 36,278	\$ 7,861,304
Other equity	<u>(1,077,395)</u>	<u>141,936</u>	<u>(935,459)</u>

	December 31, 2017		January 1, 2018
Items	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
Total effect on equity	\$ 6,747,631	\$ 178,214	\$ 6,925,845

B. IFRS 15 “Revenue from Contracts with Customers”

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

When applying IFRS 15, the Group shall recognize 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 contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

The Group elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the accumulative effect of the change in retained earnings on January 1, 2018. The application of IFRS 15 is not expected to have a material impact on the financial statements of the Group.

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

(3) The IFRSs issued by IASB but not endorsed by FSC

New Standards, Interpretations and Amendments	Effective Date Issued by IASB (Note)
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
Annual Improvements to IFRSs 2015-2017 Cycle	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 January 1, 2018.

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

Except for the following, the initial application of the above new standards and interpretations would not have any material impact on the Group’s accounting policies:

A. IFRS 16 “Leases”

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

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

B. IFRIC 23 “Uncertainty over Income Tax Treatments”

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with the

Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs as endorsed by the FSC.

(2) Basis of Preparation

- A. The consolidated financial statements have been prepared under the historical cost convention except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.
- B. The preparation of consolidated financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

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

the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Percentage of Ownership		Description
			December 31, 2017	December 31, 2016	
The Company	American Kenda Rubber Ind. Co., Ltd. (collectively as KA)	Trading and investing activities	100%	100%	
The Company	Kenda Rubber Ind. Co., (Hong Kong) Ltd. (collectively as KHK)	Trading and investing activities	100%	100%	
The Company	Kenda Rubber (Vietnam) Co., Ltd. (collectively as KV)	Manufacturing and selling of various types of tires	100%	100%	
The Company	Kenda Rubber Industrial Co. (Europe GmbH) (collectively as KE)	Marketing planning activities	100%	100%	
The Company	Kenda International Corporation Co., Ltd. (collectively as KIC)	Investing activities	100%	100%	
The Company	Kenfong Industrial Co., Ltd. (collectively as KF)	Manufacturing and selling of various types of tires	100%	100%	
The Company	Pt. Kenda Rubber Indonesia (collectively as KI)	Manufacturing and selling of various types of tires	99.99%	99.99%	
KA	Americana Development, Inc. (collectively as ADI)	Manufacturing and distributes wheels, wheels assemblies and mounted tires	100%	100%	
KHK	Kenda Rubber (Shenzhen) Ltd. (collectively as KS)	Manufacturing and selling of various types of tires	60%	60%	
KHK	Kenda Rubber (Tianjin) Co., Ltd (collectively as KT)	Manufacturing and selling of various types of tires	25%	26.09%	Note 1
KIC	Kenda Global Holding Co., Ltd. (collectively as KGH)	Trading and investing activities	100%	100%	
KIC	Kenda Global Investment Corporation (collectively as KGI)	Investing activities	100%	100%	
KGI	Kenda Rubber (Huizhou) Co., Ltd. (collectively as KH)	Manufacturing and selling of various types of tires	100%	100%	
KGI	STARCO Europe A/S	Investing activities	100%	-	Note 2
KGH	Kenda Global (China) Investment Corporation (collectively as KGCI)	Investing activities	100%	100%	
KGH	Kenda Rubber (Shenzhen) Ltd. (collectively as KS)	Manufacturing and selling of various types of tires	40%	40%	
KGH	Kenda Rubber (Tianjin) Co., Ltd (collectively as KT)	Manufacturing and selling of various types of tires	75%	73.91%	Note 1
KGCI	Kenda Rubber (China) Ltd. (collectively as KC)	Manufacturing and selling of various types of tires	100%	100%	
STARCO Europe A/S	STARCO GB Ltd. UK (collectively as STARCO GB)	Selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	STARCO GmbH, Germany (collectively as STARCO GmbH)	Selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	STARCO Polska SP.	Selling of various types of	100%	-	Note 2

Name of investor	Name of subsidiary	Main business activities	Percentage of Ownership		Description
			December 31, 2017	December 31, 2016	
	ZOO, Poland (collectively as STARCO POL)	tires			
STARCO Europe A/S	STARCO NV, Belgium (collectively as STARCO NV)	Selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	STARCO GS AG, Switzerland (collectively as STARCO GS)	Selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	STARCO Baltic Ou, Estonia (collectively as STARCO Baltic)	Selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	STARCO France	Selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	STARCO Beli Manistir D.O.O. Croatia (collectively as STARCO Beli)	Manufacturing and selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	STARCO DML, UK (collectively as STARCO DML)	Manufacturing and selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	STARCO Lanka (PVT) Ltd. (collectively as STARCO Lanka)	Manufacturing and selling of various types of tires	100%	-	Note 2
STARCO Europe A/S	Jelshoj Imovina D.O.O. (collectively as STARCO Jelshoj)	Investing activities	100%	-	Note 2
STARCO Europe A/S	STARCO IPR GmbH, Switzerland (collectively as STARCO IPR)	Investing activities	100%	-	Note 2
STARCO France	W.M. SARL (collectively as STARCO W.M.)	Investing activities	100%	-	Note 2
STARCO W.M.	S.L.S.A. France (collectively as STARCO S.L.S.A.)	Investing activities	100%	-	Note 2

Note1: KGH increased its investment in KT in the amount of USD 30,000 thousand in December of 2016. After this capital increment in cash, ownership of KT by KGH and KHK increased to 73.91% and 26.09%, respectively. KGH increased its investment in KT in the amount of USD 5,000 thousand in January of 2017. After the capital increment in cash, ownership of KT by KGH and KHK increased from 73.91% and 26.09% to 75% and 25%, respectively.

Note2: KGI's acquisition of STARCO Europe A/S has been approved by the Board of Directors on September 27, 2017. The acquisition date is October 2, 2017. STARCO Europe A/S and its subsidiaries have been included in the list of subsidiaries included in the consolidated financial statements since acquisition day.

(4) Foreign Currencies

- A. Items included in the financial statements of each of the Group's entities are measured using the functional currency of each entity. The consolidated financial statements are presented in New Taiwan Dollars, which is the Group's functional currency.
- B. In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity'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 are recognized in profit or loss for the period. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are retranslated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss as part of the fair value gain or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income is re-translated at the exchange rates prevailing at the balance sheet date; their translation

differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- C. For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into NTD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to noncontrolling interests as appropriate).

(5) Classification of Current and Noncurrent Items

A. Assets that meet one of the following criteria are classified as current assets.

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

The Group classifies all assets that do not meet the above criteria as non-current.

B. Liabilities that meet one of the following criteria are classified as current liabilities:

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the end of reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue.
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the end of reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all liabilities that do not meet the above conditions as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including the original maturity of the time deposits within three months.)

(7) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

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

- A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
- C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(9) Loans and receivables

A. Accounts receivables

Accounts receivables are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently remeasured at amortized cost using the effective interest method, less provision for impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

B. Bond investments without active market (presented in other financial assets)

(a) Bond investments without active market are bond investments with fixed or definite receipt, which meet the following criteria:

- i. Not classified as at fair value through profit or loss
- ii. Not designated as available-for-sale
- iii. No other factors except for credit worsening that causes the holders may not recover most of the original investments.

(b) On a regular way purchase or sale basis, bond investments without active market are recognized and derecognized using trade date accounting.

(c) Bond investments without active market are initially recognized at fair value plus related transaction cost, and subsequently remeasured at amortized cost using the effective interest method less impairment. The amortization at the effective interest rate is recognized in profit or loss.

(10) Impairment of financial assets

- A. The Group assesses at the end of reporting period whether there is objective evidence that a financial asset or a group of financial assets impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(a) Loans and receivables

For some financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence that receivables are impaired includes historical trends of collection and increasing level of overdue receivables which are collected beyond the credit term, including taking national or regional observing economical trend into account.

For the financial assets measured 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. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss recognized, the previously recognized impairment loss is reversed through profit or loss. The reversal shall not result in carrying amount of the financial asset that exceed what the amortized cost would have been at the date the impairment is reserved.

(b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently.

- (c) The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is 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 amount of the allowance accounts are recognized in profit or loss.

(11) Derecognition of financial assets

The Group derecognizes a financial asset when one of the following conditions is met:

- A. The contractual rights to receive cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows from the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The Group neither retains nor transfers substantially all risks and rewards of ownership of the financial asset; however, it has not retained control of the financial asset.

On derecognition of a financial asset in its entirety, the difference between the financial 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 and accumulated in equity is recognized in profit or loss.

(12) Inventories

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

(13) Non-current assets (or disposal groups) held for sale

An entity shall classify a non-current assets (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and the sale is highly probable. Assets that meet the criteria to be classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell.

(14) Investments accounted for using equity method

- A. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
- B. The operating results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of profit or loss and other comprehensive income of the associate as well as the distribution received. The Group also recognizes its share in the changes in the equities of associates.
- C. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.
- D. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less cost to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.
- E. The company discontinues the use of the equity method from the date when the Group ceases to have significant influence over an associate. When the Group retains an interest in the former

associate, the Group measures the retained interest at fair value at that date. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group shall account for all amount recognized in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. If the Group's ownership interest in an associate is reduced as a result of disposal, but the investment continues to be an associate, the Group should reclassify to profit or loss only a proportionate amount of the gain or loss previously recognized in other comprehensive income.

- F. When the Group subscribes to additional shares in a associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the net assets of the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group's ownership interest is reduced due to the additional subscription to the shares of associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

(15) Property, plant and equipment

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

The estimated useful lives of property, plant and equipment are as follows:

Buildings	2~55years
Machinery	2~20years
Other equipment	2~18years

- D. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss

arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(16) Leases

- A. Leases are classified as finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.
- B. Operating leases are lease other than finance lease. Lease payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(17) Intangible Assets

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 over the following estimated lives: 1 to 5 years for computer software; trademarks and patents based on the economic benefit or contract period. The estimated useful life and amortization method are reviewed at each end of reporting year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

An item of intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of intangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(18) Impairment of non-financial assets

The Group assesses at the end of reporting period the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset or a 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.

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

- A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or designated as financial liabilities at fair value through profit or loss on initial recognition. Financial liabilities classified as held for trading are if the principal purpose of acquisition is repurchasing in the short term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges.
- B. Financial liabilities at fair value through profit or loss are initially recognized at fair value.

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

(20) Provisions

Provisions (including warranty, decommissioning costs, restructuring, onerous contract and contingent liability happened in merger, sales return and sales discount) are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the end of reporting period. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Moreover, levies imposed by governments are recognized as provisions on the occurrence of the transactions or activities. Payment obligations occurred over time are recognized as provisions over time and payment obligations occurred over certain thresholds are recognized once the thresholds are reached.

(21) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

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

- ii. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognized immediately in profit or loss.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' compensation and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by board of directors meeting subsequently, the differences should be recognized based on the accounting for changes in estimates.

D. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes expense when it can no longer withdraw an offer of termination benefits or it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

(22) Financial liabilities and equity instruments

A. Classification as debt or equity

Debt and equity instruments issued by the Group 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.

B. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

C. Financial liabilities

Financial liabilities other than those held for trading purposes and designated as at FVTPL are subsequently measured at amortized cost at the end of each reporting period.

D. Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(23) Capital Stock

Capital stock is classified as equity. Incremental costs directly attributable to the issuance of stock or options are deducted from the capital issued.

(24) Income tax

- A. The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the financial reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognized, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences, deductible loss, and unused tax credit can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. Tax credits for research and development expenditures are recognized as current tax benefit.

(25) Revenue Recognition

- A. Sale of goods
 - (a) Revenue of the Group is measured at the fair value of the consideration received or receivable taking into account returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue from the sale of goods is recognized

when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- i. The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ii. The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- iii. The amount of revenue can be measured reliably;
- iv. It is probable that the economic benefits associated with the transaction will flow to the Group; and
- v. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

B. Service, rental, dividend and interest income

- (a) Service income is recognized when services are provided. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. However, when a specific significant portion of service existed within rendering the services, the service income should be recognized until the specific significant service provided.
- (b) Rental income is recognized on a straight-line basis over the term of the relevant lease.
- (c) 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 Group and the amount of income can be measured reliably.
- (d) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(26) Government grants

Government grants are recognized at fair value when the Group will comply with the conditions attached to them and will receive the grants. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

(27) Borrowing costs

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

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

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

(28) Business combinations

- A. The Group account for business combinations by applying the acquisition method. The consideration transferred is measured at fair value and calculated as the sum of the assets transferred, the liabilities incurred and the equity interest issued and includes any asset or liability

resulting from a contingent consideration arrangement. The acquisition-related costs are recognized as expenses in the periods in which the costs are incurred. The identifiable assets acquired and the liabilities assumed shall be measured at their acquisition-date fair values.

B. The excess of the sum of consideration transferred, non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of acquisition-date amounts of the identifiable assets acquired and the liabilities assumed shall be recognized as goodwill as of the acquisition date. If the net of acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of consideration transferred, non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, the resulting gain shall be recognized in profit or loss on the acquisition date.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The preparation of the Group's consolidated financial statements is adopting accounting policies based on the following significant judgements, significant accounting estimates and assumptions:

(1) Impairment of Tangible and Intangible Assets

In the process of evaluating the potential impairment of tangible and intangible assets, the Group is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges in future years.

(2) Realization of Deferred Income Tax Assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Group's subjective judgment and estimate, including the future revenue growth and profitability, tax holidays, the amount of tax credits can be utilized and feasible tax planning strategies. Any changes in the global economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

(3) Evaluation of inventories

As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date based on judgments and estimates. The Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. The net realizable value of inventory is mainly determined based on assumptions of future demand within a specific period, the assumptions might change in the future and may result in significant differences in its realizable value.

(4) Calculation of accrued pension obligations

When calculating the present value of defined pension obligations, the Group must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates

and future rate of salary growth. Any changes of these assumptions could significantly impact the carrying amount of defined pension obligation.

(5) Business combinations

The acquirer shall recognize and measure the net assets acquired at their acquisition-date fair values. The purchase price allocation requires the Group's subjective judgment and estimate. When the estimated fair values have no access to the Level 1 inputs, the Group refers to market information for determining inputs. Changes of fair values might arise if the actual ones are different from expected ones.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

Items	December 31	
	2017	2016
Cash on hand	\$ 4,231	\$ 3,202
Checking accounts and demand deposits	8,872,983	11,989,383
Time deposits (with original maturities within three months)	1,130,880	3,221,836
Total	<u>\$ 10,008,094</u>	<u>\$ 15,214,421</u>

Time deposits with original maturities over three months are classified as other financial assets, please refer to note "other financial assets – current".

(2) Financial instruments at fair value through profit or loss

Items	December 31	
	2017	2016
<u>Held for trading financial assets</u>		
<u>Non-derivative financial assets</u>		
Listed stocks	<u>\$ 1,062</u>	<u>\$ 844</u>

A. The Group recognized net profit or loss of the years 2017 and 2016 are \$218 thousand and \$(18) thousand.

B. Financial instruments at fair value through profit or loss are not pledged to others.

(3) Notes receivable, net – nonrelated parties

Items	December 31	
	2017	2016
Notes receivable-operating activities	\$ 270,369	\$ 458,305
Less: Allowance for doubtful receivables	-	-
Notes receivable, net	<u>\$ 270,369</u>	<u>\$ 458,305</u>

The notes receivables of the company are not pledged to others.

(4) Accounts receivable, net – nonrelated parties

Items	December 31	
	2017	2016
Accounts receivable-operating activities	\$ 3,827,701	\$ 3,257,689
Less: Allowance for doubtful receivables	(69,639)	(15,618)
Accounts receivable, net	<u>\$ 3,758,062</u>	<u>\$ 3,242,071</u>

A. The accounts receivable that were neither past due nor impaired was following the Group's credit policy determined by reference to the industry characteristics, operation scale and current financial position of the counterparties. The average credit term is 7 to 120 days after the month of invoice day.

B. Aging analysis of notes and accounts receivable based on the past due date, net

Aging interval	December 31	
	2017	2016
Neither past due nor impaired	\$ 3,652,981	\$ 3,462,606
Past due but not impaired		
Past due within 30 days	316,329	222,943
Past due 31-60 days	38,507	18,295
Past due 61-90 days	16,132	5,544
Past due 91-120 days	10,609	272
Past due 121-180 days	2,476	3,747
Past due 181-270 days	1,707	2
Past due 271-365 days	7,394	442
Past due over 365 days	4,415	3,568
Total	<u>\$ 4,050,550</u>	<u>\$ 3,717,419</u>

The Group's management considered the accounts receivables still recoverable since there has not been a significant change in the credit quality of its customer.

C. Movements of the allowance for doubtful receivables

Items	Years Ended December 31					
	2017			2016		
	Individual provision	Group provision	Total	Individual provision	Group provision	Total
Beginning balance	\$ 9,592	\$ 9,690	\$ 19,282	\$ 8,745	\$ 13,252	\$ 21,997
Addition from acquisition	48,382	73	48,455	-	-	-
Provision for	4,936	14,029	18,965	3,709	1,705	5,414
Reversal of	(217)	(673)	(890)	-	(3,093)	(3,093)
Write-off	(9,944)	(4,435)	(14,379)	(2,655)	(1,540)	(4,195)
Effect of exchange rate changes	(407)	(301)	(708)	(207)	(634)	(841)
Ending balance	<u>\$ 52,342</u>	<u>\$ 18,383</u>	<u>\$ 70,725</u>	<u>\$ 9,592</u>	<u>\$ 9,690</u>	<u>\$ 19,282</u>

The recognized allowance for doubtful for impaired receivable on individual base amounting to

\$0 thousand and \$1,533 thousand were recognized in overdue receivable as of December 31, 2017 and 2016, respectively. Please refer to note 6(14).

Aging analysis of accounts receivable that is individually determined as impaired:

Aging interval	December 31	
	2017	2016
Not past due	\$ -	\$ -
Past due		
Past due within 30 days	4,371	1,925
Past due 31-60 days	595	1,228
Past due 61-90 days	645	1,296
Past due 91-120 days	772	307
Past due 181-270 days	599	-
Past due 271-365 days	89	-
Past due over 365 days	\$ 46,942	\$ 3,303
Total	<u>\$ 54,013</u>	<u>\$ 8,059</u>

D. The amount of the receivables are pledged as secured of loan. Please refer to note 8.

(5) Other receivables

Items	December 31	
	2017	2016
Sales tax refundable	\$ 20,818	\$ 32,970
Interest receivable	28,465	35,264
Receivables from disposal of operating units	89,380	-
Contingent consideration receivable	56,198	-
Other receivables	68,149	54,239
Less: Allowance for doubtful receivables	(1,086)	(2,131)
Net	<u>\$ 261,924</u>	<u>\$ 120,342</u>

Other receivables included tariff refundable of ADI in the amount of USD 841 thousand and USD 1,163 thousand as of December 31, 2017 and 2016, respectively.

Receivables from disposal of operating units is the amount of receivable not yet received from disposal of the operating unit of STARCO Europe A/S in 2016 and is expected to receive in 2018.

Please refer to note 6(35) for contingent consideration receivable.

(6) Inventories and cost of sales

Items	December 31	
	2017	2016
Finished goods	\$ 2,205,120	\$ 1,476,166
Work in process	548,174	512,957
Raw materials	3,287,263	2,373,122
Supplies	263,118	157,787
Merchandise	31,055	32,244
Inventory in transit	981,141	1,065,010
Total	<u>\$ 7,315,871</u>	<u>\$ 5,617,286</u>

A. The cost of inventories recognized as expense for the period:

Items	Years Ended December 31	
	2017	2016
Unallocated factory overhead	\$ 112,092	\$ 179,896
Loss on decline (gain on reversal) in market value of inventories	(17,656)	11,315
Loss on inventory disposed	10,190	8,522
Inventory taking loss (gain)	(10,729)	3,433
Total	<u>\$ 93,897</u>	<u>\$ 203,166</u>

B. Information of the inventories pledged as secured of loan, please refer to Note 8.

(7) Disposal groups/discontinued operations held for sale

STARCO Lanka meets the criteria of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” and is classified as a disposal group held for sale. The disposal group to be sold also meets the criteria of discontinued operations. The assets and liabilities of Lanka are recognized as a disposal group and the following information is disclosed in accordance with relevant regulations:

A. Classified as assets of disposal groups held for sale:

Items	December 31, 2017
Cash and cash equivalents	\$ 1,610
Accounts receivable – non-related party	11,454
Other receivables – non-related party	5,060
Inventories	5,899
Other current assets	1,675
Property, plant, and equipment	49,816
Total	<u>\$ 75,514</u>

B. Classified as liabilities of disposal groups held for sale:

Items	December 31, 2017
Accounts payable – non-related party	\$ 8,646
Other payables	587
Other current liabilities	1,824
Total	<u>\$ 11,057</u>

C. Operating result of discontinued operations:

Items	2017
Revenue	\$ 9,699
Costs and expenses	(15,329)
Loss from discontinued operations	<u>\$ (5,630)</u>

(8) Other financial assets – current

Items	December 31	
	2017	2016
Time deposits (with original maturities over three months)	\$ 2,642,360	\$ 3,585,518
Restricted deposits	91,954	-
Total	<u>\$ 2,734,314</u>	<u>\$ 3,585,518</u>

(9) Financial assets carried at cost – noncurrent

Items	December 31	
	2017	2016
Domestic unlisted stock	\$ 46,882	\$ 46,882
Less: Accumulated impairment loss	(12,960)	(12,960)
Foreign unlisted stock	110,313	114,553
Less: Accumulated impairment loss	(23,318)	(23,318)
Total	<u>\$ 120,917</u>	<u>\$ 125,157</u>

Since there is a wide range of estimated fair values of the Group's unlisted stock investments, the Groups concludes that the fair value cannot be reliably measured and therefore should be measured at the cost less any impairment.

(10) Investments accounted for using equity method

Subsidiaries	2017	2016
Associates :		
Individually immaterial associates	<u>\$ 65,370</u>	<u>\$ -</u>

A. Shares of individually immaterial associates :

Shares	2017	2016
Net income	\$ 1,015	\$ -
Other comprehensive income, net of tax	-	-
Total comprehensive income	<u>\$ 1,015</u>	<u>\$ -</u>

(11) Property, plant, and equipment

Items	December 31	
	2017	2016
Land	\$ 1,844,684	\$ 1,386,452
Buildings	5,551,429	5,160,794
Machinery	14,042,820	13,283,527
Other equipment	1,830,830	1,612,017
Equipment to be inspected and construction in progress	1,032,205	703,784
Total cost	24,301,968	22,146,574
Less: Accumulated depreciation and impairment	(12,223,069)	(11,616,615)
Total	<u>\$ 12,078,899</u>	<u>\$ 10,529,959</u>

	Land	Buildings	Machinery	Other equipment	Equipment to be inspected and construction in progress	Total
<u>Cost</u>						
Balance, Beginnings of 2017	\$ 1,386,452	\$ 5,160,794	\$ 13,283,527	\$ 1,612,017	\$ 703,784	\$ 22,146,574
Addition from acquisition	88,804	250,128	252,578	75,715	22,247	689,472
Additions	196,343	32,130	370,536	60,172	552,388	1,211,569
Disposal	-	(838)	(152,809)	(50,353)	-	(204,000)
Reclassification	179,849	258,468	611,065	170,291	(201,383)	1,018,290
Effect of exchange rate difference	(6,764)	(149,253)	(322,077)	(37,012)	(44,831)	(559,937)
Balance, End of 2017	<u>\$ 1,844,684</u>	<u>\$ 5,551,429</u>	<u>\$ 14,042,820</u>	<u>\$ 1,830,830</u>	<u>\$ 1,032,205</u>	<u>\$ 24,301,968</u>
<u>Accumulated depreciation</u>						
Balance, Beginnings of 2017	\$ -	\$ (2,087,880)	\$ (8,484,214)	\$ (1,044,521)	\$ -	\$ (11,616,615)
Additions	-	(179,062)	(760,268)	(129,096)	-	(1,068,426)
Disposal	-	704	115,722	44,994	-	161,420
Reclassification	-	(741)	(2,399)	3,921	-	781
Effect of exchange rate difference	-	61,771	212,320	25,680	-	299,771
Balance, End of 2017	<u>\$ -</u>	<u>\$ (2,205,208)</u>	<u>\$ (8,918,839)</u>	<u>\$ (1,099,022)</u>	<u>\$ -</u>	<u>\$ (12,223,069)</u>
<u>Cost</u>						
Balance, Beginnings of 2016	\$ 1,381,688	\$ 5,417,291	\$ 13,165,387	\$ 1,616,519	\$ 317,031	\$ 21,897,916
Additions	1,239	58,236	449,959	43,807	643,427	1,196,668
Disposal	(250)	(5,032)	(173,902)	(21,916)	-	(201,100)
Reclassification	5,026	27,807	625,446	49,447	(244,647)	463,079
Effect of exchange rate difference	(1,251)	(337,508)	(783,363)	(75,840)	(12,027)	(1,209,989)
Balance, End of 2016	<u>\$ 1,386,452</u>	<u>\$ 5,160,794</u>	<u>\$ 13,283,527</u>	<u>\$ 1,612,017</u>	<u>\$ 703,784</u>	<u>\$ 22,146,574</u>
<u>Accumulated depreciation</u>						
Balance, Beginnings of 2016	\$ -	\$ (2,034,053)	\$ (8,358,838)	\$ (1,003,612)	\$ -	\$ (11,396,503)
Additions	-	(181,657)	(774,418)	(111,523)	-	(1,067,598)
Disposal	-	2,830	137,291	19,304	-	159,425
Effect of exchange rate difference	-	125,000	511,751	51,310	-	688,061
Balance, End of 2016	<u>\$ -</u>	<u>\$ (2,087,880)</u>	<u>\$ (8,484,214)</u>	<u>\$ (1,044,521)</u>	<u>\$ -</u>	<u>\$ (11,616,615)</u>

KF bought two parcels of land at Shiliuban zone of Yunlin Technology Industrial District. The total purchase price of the two parcels of land is \$178,069 thousand. The title of the land had been registered and transferred to KF and the land ownership certificate had been obtained. KF also paid refundable deposit in the total amount of \$17,807 thousand.

The Company acquired two parcels of land located in Chongyang section of Yuanlin township for operating purpose in March, 2017. The purchase price of the land is \$197,500 thousand. The title of the land had been transferred to the Company and the land ownership certificate had been obtained in April, 2017. One of a parcel of the land is farming and pasturable land. The land will be registered under the Company after the category of the land is changed. Currently, the land is under the name of related party, Mr. Chen. The Company holds the original ownership certificate of such land and

signed a land trust agreement, which requires the nominal holder not to transfer the ownership of the land to others.

Information of the property, plant and equipment pledged as secured of loan, please refer to Note 8.

The borrowing cost capitalized of the Group, please refer to note 6(31).

(12) Intangible assets

Items	December 31	
	2017	2016
Software	\$ 31,021	\$ 19,697
Trademark	37,885	40,769
Patent	25,396	26,768
Total cost	94,302	87,234
Less: Accumulated amortization	(28,737)	(21,010)
Intangible assets, net	<u>\$ 65,565</u>	<u>\$ 66,224</u>

For the Year Ended December 2017

	Software	Trademark	Patent	Total
Cost				
Balance, Beginnings of 2017	\$ 19,697	\$ 40,769	\$ 26,768	\$ 87,234
Addition from acquisition	-	-	692	692
Additions	17,319	-	-	17,319
Disposal	(5,995)	-	-	(5,995)
Effect of exchange rate difference	-	(2,883)	(2,065)	(4,948)
Balance, End of 2017	<u>\$ 31,021</u>	<u>\$ 37,886</u>	<u>\$ 25,395</u>	<u>\$ 94,302</u>

Accumulated amortization

Balance, Beginnings of 2017	\$ (7,746)	\$ (2,557)	\$ (10,707)	\$ (21,010)
Additions	(13,805)	(451)	(340)	(14,596)
Disposal	5,995	-	-	5,995
Effect of exchange rate difference	-	47	827	874
Balance, End of 2017	<u>\$ (15,556)</u>	<u>\$ (2,961)</u>	<u>\$ (10,220)</u>	<u>\$ (28,737)</u>

For the Year Ended December 2016

	Software	Trademark	Patent	Total
Cost				
Balance, Beginning of 2016	\$ 14,771	\$ 41,881	\$ 27,245	\$ 83,897
Additions	8,031	-	-	8,031
Disposal	(3,105)	(59)	-	(3,164)
Effect of exchange rate difference	-	(1,053)	(477)	(1,530)
Balance, End of 2016	<u>\$ 19,697</u>	<u>\$ 40,769</u>	<u>\$ 26,768</u>	<u>\$ 87,234</u>

For the Year Ended December 2016

	Software	Trademark	Patent	Total
Accumulated amortization				
Balance, Beginning of 2016	\$ (4,209)	\$ (2,337)	\$ (10,898)	\$ (17,444)
Additions	(6,642)	(485)	-	(7,127)
Disposal	3,105	59	-	3,164
Effect of exchange rate difference	-	206	191	397
Balance, End of 2016	<u>\$ (7,746)</u>	<u>\$ (2,557)</u>	<u>\$ (10,707)</u>	<u>\$ (21,010)</u>

Information of intangible assets pledged as secured of loan, please refer to Note 8.

The amortization method and useful lives of intangible assets listed as below:

Company name	Intangible assets	2017	2016	Amortization period
		Cost	Cost	
The Company	Software	\$ 31,021	\$ 19,697	1~5
KS	Trademark	4,555	4,649	10
ADI	Trademark	33,331	36,120	Indefinite useful life
ADI	Patent	24,701	26,768	Indefinite useful life
STARCO	Patent	694	-	5
	Total	\$ 94,302	\$ 87,234	

(13) Long-term prepaid rent

Items	December 31	
	2017	2016
Land use right	<u>\$ 1,233,443</u>	<u>\$ 1,328,201</u>

KS, KC and KT signed the land use right contract in China with Longhua government, Kunshan government and Tianjin government. The terms for the land use right are 40 to 50 years. KV signed the land use right contract in Vietnam with Jiangtian Industrial Zone, Dong Nai Province. The term of land use right is 43 years.

During the terms of the land use right, the Group has the right to use, to receive the benefit from, to transfer the ownership and to lease the lands use right, and should pay the taxes for using the land. The lands use right was used to build factories, office buildings and employees' dormitories.

KI signed the land use right in Indonesia with Serang, Banten Province. The lands use right was used to build factories, office buildings and employees' dormitories.

(14) Other noncurrent assets

Items	December 31	
	2017	2016
Prepaid of equipment	\$ 1,433,004	\$ 681,032
Prepaid of land	358,058	179,849
Refundable deposits	66,527	95,436
Other noncurrent assets	902	-

Items	December 31	
	2017	2016
Overdue receivables	\$ -	\$ 1,533
Less: allowance for doubtful debts	-	(1,533)
Total	<u>\$ 1,858,491</u>	<u>\$ 956,317</u>

Information of prepayment for land purchases and refundable deposit paid by KF, please refer to note 6(11).

The Company acquired land and buildings located in Citong Township of Yunlin County. The total purchase price is \$660,000 thousand. \$355,000 thousand has been paid as of December 31, 2017. The title of the land had been registered and transferred to the Company and the land ownership certificate had been obtained in January, 2018.

(15) Short-term loans

Type of borrowings	December 31	
	2017	2016
Secured borrowings	\$ 211,726	\$ -
Unsecured borrowings	1,096,178	596,461
Total	<u>\$ 1,307,904</u>	<u>\$ 596,461</u>
Interest rate range	<u>0.65%~5.27%</u>	<u>1.00%~4.13%</u>

(16) Short-term notes and bills payables

Items	December 31	
	2017	2016
Promissory notes	\$ 150,000	\$ 150,000
Less: Unamortized discounts	(593)	(528)
Net	<u>\$ 149,407</u>	<u>\$ 149,472</u>
Interest rate range	<u>1.18%~1.27%</u>	<u>1.27%</u>

(17) Other payables

Items	December 31	
	2017	2016
Salaries and bonus payable	\$ 415,670	\$ 452,115
Payable for construction and equipment	89,165	150,630
Sales tax payable	228,591	327,229
Compensation payable of employees, directors and supervisors	8,368	47,411
Investment consideration payable	125,132	-
Others	1,157,210	1,016,092
Total	<u>\$ 2,024,136</u>	<u>\$ 1,993,477</u>

Investment consideration payable is the remaining payment for acquiring STARCO Europe A/S which is now reserved in accordance with the agreement.

(18) Provisions - current

Items	Year ended December 31	
	2017	2016
Warranty		
Balance, beginning of year	\$ 33,039	\$ 55,802
Additions	15,215	-
Settlements	(744)	(21,790)
Effect of exchange rate difference	(2,870)	(973)
Balance, end of year	<u>\$ 44,640</u>	<u>\$ 33,039</u>

The Group's warranty obligation is estimated base on the historical warranty experience of the goods sold.

(19) Long-term loan and long-term loan due within a year

Type of borrowings	December 31	
	2017	2016
Secured borrowings	\$ 878,781	\$ 1,190,888
Unsecured borrowings	12,671,136	11,971,962
	<u>13,549,917</u>	<u>13,162,850</u>
Less: due within a year	(2,586,507)	(2,888,218)
Total	<u>\$ 10,963,410</u>	<u>\$ 10,274,632</u>
Interest rate range	<u>0.89%~5.68%</u>	<u>0.89%~3.50%</u>
Maturity date	<u>2018 to 2026</u>	<u>2017 to 2026</u>

A. Information of assets pledged as collateral for long-term loan, please refer to Note 8.

B. According to loan agreements with banks, the Company, KA, ADI and part of the subsidiaries of STARCO Europe A/S should maintain certain agreed financial ratios. Additionally, several agreements requested assets as collaterals. The Company, KA, ADI and part of the subsidiaries of STARCO Europe A/S have not breached the agreements as of December 31, 2017 and December 31, 2016, respectively.

(20) Pensions**A. Defined contribution plans**

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

(b)The foreign subsidiaries also make contribution in accordance with the rate specified in the plans in the local regulations, which is a defined contribution plan.

(c)The Group recognized expenses in the consolidated statement of comprehensive income were \$293,991 thousand and \$308,881 thousand under the contributions rates specified in the plans for the years ended December 31, 2017 and 2016, respectively.

B. Defined benefit plans

(a)The Company adopted the pension plan under the Labor Standards Law, which is a

government managed defined benefit plan, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company make contributions, equal to 15% of total monthly salaries, to a pension fund which are administered by Labor Pension Fund Supervisory Committee (the Committee) and deposited in the name of the Company's Committee in the Bank of Taiwan. 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 qualified to retirement requirements in the next year, the Company is required to fund the difference in one deposit by 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 have no right to influence the investment policy and strategy.

(b) Amounts recognized in the consolidated statements of balance sheet in respect of these defined benefit plans were as follows:

Items	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 676,652	\$ 672,098
Fair value of plan assets	(328,188)	(316,080)
Net defined benefit liability	<u>\$ 348,464</u>	<u>\$ 356,018</u>

(c) Movement in net defined benefit liability were as follows:

Items	Year ended December 31, 2017		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance at January 1	\$ 672,098	\$ (316,080)	\$ 356,018
Service cost			
Current service cost	9,758	-	9,758
Interest expense (income)	8,272	(4,042)	4,230
Recognized in profit or loss	<u>18,030</u>	<u>(4,042)</u>	<u>13,988</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest expense)	-	1,072	1,072
Actuarial (gain) loss arising from changes in demographic assumptions	(13)	-	(13)
Actuarial (gain) loss arising from changes in financial assumptions	18,474	-	18,474
Actuarial (gain) loss arising from experience adjustments	<u>7,313</u>	<u>-</u>	<u>7,313</u>
Recognized in other comprehensive income	<u>25,774</u>	<u>1,072</u>	<u>26,846</u>
Contributions from employer	-	(48,388)	(48,388)
Benefits paid	<u>(39,250)</u>	<u>39,250</u>	<u>-</u>
Balance at December 31	<u>\$ 676,652</u>	<u>\$ (328,188)</u>	<u>\$ 348,464</u>

Year ended December 31, 2016			
Items	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
Balance at January 1	\$ 686,017	\$ (126,939)	\$ 559,078
Service cost			
Current service cost	11,388	-	11,388
Interest expense (income)	8,432	(1,671)	6,761
Recognized in profit or loss	19,820	(1,671)	18,149
Remeasurement			
Return on plan assets (excluding amounts included in net interest expense)	-	(208)	(208)
Actuarial (gain) loss arising from changes in demographic assumptions	859	-	859
Actuarial loss (gain) arising from experience adjustments	(8,158)	-	(8,158)
Recognized in other comprehensive income	(7,299)	(208)	(7,507)
Contributions from employer	-	(213,702)	(213,702)
Benefits paid	(26,440)	26,440	-
Balance at December 31	\$ 672,098	\$ (316,080)	\$ 356,018

The pension costs of the defined benefit plans were recognized in profit or loss by the following items:

Items	Years ended December 31	
	2017	2016
Cost of revenue	\$ 4,770	\$ 6,819
Marketing expenses	2,279	3,362
General and administrative expenses	5,164	6,402
Research and development expenses	1,775	1,566
Total	\$ 13,988	\$ 18,149

(d) Fair value of the plan assets was as follows:

Items	December 31	
	2017	2016
Cash and cash equivalent	\$ 328,188	\$ 316,080

(e) Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

i. Investment risk:

The plan assets are invested in domestic and foreign equity securities, debt securities, and bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor 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.

ii. Interest risk:

A decrease in the government bond and corporation 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.

iii. 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.

(f) 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:

Items	Measurement date	
	December 31	
	2017	2016
Discount rates	1.00%	1.25%
Expected rates of salary increase	2.00%	2.00%

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

Items	December 31	
	2017	2016
Discount rates		
0.25% increase	\$ (18,474)	\$ (18,894)
0.25% decrease	19,222	19,683
Expected rates of salary increase		
0.25% increase	\$ 18,983	\$ 19,487
0.25% decrease	(18,340)	(18,803)

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.

(g) The Group expected set aside fund is \$35,873 thousand to its defined plan in 2017. The average maturity period of the defined benefit obligation are 11 years.

(21) Other noncurrent liabilities

Items	December 31	
	2017	2016
Guarantee deposits	\$ 473,271	\$ 484,321
Other noncurrent liabilities	714	908
Total	<u>\$ 473,985</u>	<u>\$ 485,229</u>

Due to the urbanization policy of future city development in Shenzhen City, KS entered into an collaboration agreement with Kaisa Urban Renewal Group (collectively as Kaisa) for building development of the land use right. Kaisa had paid the guarantee deposit in the amount of RMB 100,000 thousand accordingly. KS expects to share 35%-45% of building units under the agreement. The ultimate shared percentage of the building for KS should be finalized when the building construction project is approved by local government authorities.

(22) Capital stocks

A. The Group's movement of outstanding shares and capital were as follows:

Items	Year Ended December 31, 2017	
	Shares (in thousands)	Capital
Beginning balance	874,430	\$ 8,744,300
Ending balance	874,430	\$ 8,744,300

Items	Year Ended December 31, 2016	
	Shares (in thousands)	Capital
Beginning balance	857,280	\$ 8,572,800
Stock dividend to shareholders	17,150	171,500
Ending balance	874,430	\$ 8,744,300

The par value of capital stock is \$10 per share; every share has one voting right and the right to receive dividends.

Pursuant to a shareholders' resolution on June 14, 2016, the Company increase its common capital with stock dividends by 17,150 thousand shares, at a par value of \$10, the total paid-in capital was \$8,744,300 thousand after capital increment. The capital increment by stock dividends had obtained approval from the FSC on July 15, 2016. Based on the resolution of BOD's meeting, the effective date of the capital increment was September 6, 2016 and the capital increment had already been registered by the government authorities on September 22, 2016.

B. The Company's authorized capital was \$8,800,000 thousand, consisting of 880,000 thousand shares as of December 31, 2016.

(23) Capital surplus

Under the Company Act, the capital surplus generated from the excess of the issuance price over the par value of capital stock and from donations can be used to offset deficit or may be distributed as stock dividends or cash dividends. Under the regulations of the Security Exchange Law, the maximum amount transferred from the foregoing capital surplus to the Company's capital per year shall not be over 10% of the Company's capital surplus. Capital surplus can't be used to offset deficit unless legal reserve is insufficient. The capital surplus from long-term investments may not be used for any purpose.

(24) Retained earnings and earnings appropriation

A. According to the Company's Article of Incorporation, the current year's earnings, if any, shall first be used to pay tax and offset prior years' deficits, and then 10% of the remaining amount shall be set aside as legal reserve, until that such legal reserve amounts to the total paid-in capital. When necessary, the Company shall set aside or reverse a special reserve in accordance with the applicable laws and regulations.

The Company will take into consideration of the operating environment and growth stage of the Company in response to meet the capital need and long-term financial plan, and to satisfy the shareholders' demand for cash inflows, the Company's Board of Directors would propose 10% to 80% of distributable earning which comprise of the current remaining earning and undistributed earnings from previous year as dividend distribution and submitted to the shareholders meeting for approval. The cash dividends shall not be less than 10% of the total dividend declared. The kind and ratio of dividend distribution should be adjusted in the shareholders' meeting according to the profit and operating capital condition of the year.

B. Legal reserve may be used to offset a deficit or to distribute as dividend in cash or in stock for the portion in excess of 25% of the Company's paid-in capital.

C. Special reserve

Items	December 31	
	2017	2016
Special reserve	\$ 694,585	\$ 719,550

(a) In accordance with the regulation, the Company shall set aside special reserve from the debit balance on other equity item at the end of the year before distributing earnings. When debit balance on other equity is reversed subsequently, the reversed amount could be included in the distributable earnings.

(b) Due to the Company's first-time adoption of IFRSs as endorsed by the FSC, the unrealized revaluation increments and cumulative translation adjustment in \$302,669 thousand and \$725,722 thousand, respectively, should be reclassified into retained earnings in accordance with rule No.1010012865 issue by the FSC. Accordingly, the net retained earnings increased from initial adoption of IFRSs in the amount \$719,550 thousand was set aside as special reserve. When the relevant assets are used, disposal of or reclassified subsequently, the special reserve set aside previously shall be reversed to distributable earnings proportionately. KZ has completed liquidation and \$24,965 thousand has been reversed in 2017 for retained earnings distribution.

D. The appropriations of 2016 and 2015 earnings have been approved by shareholders' meetings held on June 15, 2017 and June 14, 2016, respectively. The appropriations of earnings and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2016	For Year 2015	For Year 2016	For Year 2015
Legal reserve	\$ 309,244	\$ 346,698	\$ -	\$ -
Cash dividends to shareholders	1,748,860	1,886,016	2.00	2.20
Stock dividends to shareholders	-	171,500	-	0.20
Total	<u>\$ 2,058,104</u>	<u>\$ 2,404,214</u>		

E. The Company's appropriations of earnings for 2017 had been approved in the meeting of the Board of Directors held on March 22, 2018. The appropriations of earnings were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 32,897	\$ -
Special reserve	382,809	-
Cash dividends to shareholders	1,049,316	1.20
	<u>\$ 1,465,022</u>	

The appropriations of earnings for 2017 are to be presented for approval in the Company's annual shareholders' meeting to be held on June 11, 2018.

F. Information of the resolution regarding earnings appropriation of the Board of Directors' and shareholders' meetings can be obtained from the "Market Observation Post System" on the website of the TSE.

(25) Other equity items

A. Exchange differences on translating foreign operations

Items	Years Ended December 31	
	2017	2016
Balance, beginning of the year	\$ (176,741)	\$ 1,181,656
Exchange differences on translating foreign operations	(1,085,126)	(1,636,623)
Income tax related to exchange differences on translating foreign operations	184,472	278,226
Ending balance	<u>\$ (1,077,395)</u>	<u>\$ (176,741)</u>

Exchange differences arising on the translation of foreign operation's net assets of the Company's from their functional currencies to the Company's presentation currency (New Taiwan dollars) were recognized directly in other comprehensive income and accumulated in the exchange difference on translation foreign operation. The exchange difference on translation foreign operation previously accumulated were reclassified to profit or loss on the disposal of the foreign operation.

(26) Non-controlling interest

Items	Years Ended December 31	
	2017	2016
Balance, beginning of the year	\$ 30	\$ 30
Attributable to non-controlling interests:		
Net profit	(2)	-
Exchange differences on translating foreign operations	(2)	-
Ending balance	<u>\$ 26</u>	<u>\$ 30</u>

(27) Revenue

Items	Years Ended December 31	
	2017	2016
Sales of goods	\$ 30,528,192	\$ 29,488,465
Service income	4,494	5,163
Total	<u>\$ 30,532,686</u>	<u>\$ 29,493,628</u>

(28) Employee benefits, depreciation and amortization expense

By nature	Years Ended December 31					
	2017			2016		
	Cost of revenue	Operating expenses	Total	Cost of revenue	Operating expenses	Total
Employee benefits						
Salary	\$ 2,617,563	\$ 1,773,295	\$ 4,390,858	\$ 2,592,437	\$ 1,602,031	\$ 4,194,468
Insurance	226,197	164,146	390,343	233,436	151,883	385,319
Pension	175,959	132,020	307,979	193,777	133,253	327,030
Others	105,739	97,793	203,532	109,061	94,722	203,783
Depreciation	871,741	196,685	1,068,426	884,802	182,796	1,067,598
Amortization	3,607	40,233	43,840	2,259	38,056	40,315
Total	<u>\$ 4,000,806</u>	<u>\$ 2,404,172</u>	<u>\$ 6,404,978</u>	<u>\$ 4,015,772</u>	<u>\$ 2,202,741</u>	<u>\$ 6,218,513</u>

- A. According to the Company's Article of Incorporation, the Company is stipulated to distribute compensation of employees at the rate of 0.5% to 1% of profit before tax, to distribute remuneration of directors and supervisors no higher than the rate of 3% of profit before tax. If there is a change in amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.
- B. The appropriations of employees' compensation and remuneration of directors and supervisors of 2017 and 2016 have been approved by directors' meeting held on March 22, 2018 and March 20, 2017, respectively. The amount of approved and recognized in financial statement shown as follows :

	Years Ended December 31			
	2017		2016	
	Employees' compensation	Remuneration to directors and supervisors	Employees' compensation	Remuneration to directors and supervisors
Amounts approved in meeting	\$ 3,304	\$ 4,956	\$ 18,956	\$ 28,434

	Years Ended December 31			
	2017		2016	
	Employees' compensation	Remuneration to directors and supervisors	Employees' compensation	Remuneration to directors and supervisors
Amounts recognized in respective financial statement	\$ 3,304	\$ 4,956	\$ 18,956	\$ 28,434
Difference	\$ -	\$ -	\$ -	\$ -

Employees' compensation and remuneration to directors and supervisors of 2017 and 2016 were paid in cash.

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

(29) Other income

Items	Years Ended December 31	
	2017	2016
Rental income	\$ 5,628	\$ 6,387
Interest income		
Bank deposit interest	134,482	124,767
	134,482	124,767
Dividend income	40,656	54,690
Gain on bargain purchase	14,900	-
Other income	151,220	99,709
Total	\$ 346,886	\$ 285,553

(30) Other gains and losses

Items	Years Ended December 31	
	2017	2016
Net foreign exchange gain (loss)	\$ (655,781)	\$ 344,410
Net gain (loss) on disposal of property, plant and equipment	1,442	3,580
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	218	(18)
Net gain (loss) on disposal of investment	-	(2,634)
Other losses	(20,384)	(12,140)
Total	\$ (674,505)	\$ 333,198

(31) Financial costs

Items	Years Ended December 31	
	2017	2016
Interest expense:		
Bank loans	\$ 204,796	\$ 181,982
	204,796	181,982
Less: capitalized amount for qualifying assets	(11,375)	(11,948)

Items	Years Ended December 31	
	2017	2016
Financial costs	\$ 193,421	\$ 170,034
Interest capitalization rates	1.15%~3.72%	1.19%~5.02%

(32) Income tax

A. Income tax expense (benefit)

(a) Components of income tax expense (benefit) recognized in profit or loss

Items	Years Ended December 31	
	2017	2016
Current income tax expense	\$ 566,023	\$ 546,375
10% additional income tax on unappropriated earnings	104,057	102,987
Income tax adjustments on prior years	33,650	3,164
Deferred income tax expense (benefit) of temporary differences	(378,916)	54,926
Income tax expense (benefit)	\$ 324,814	\$ 707,452

(b) The income tax (expense) benefit recognized in other comprehensive income

Items	Years Ended December 31	
	2017	2016
Remeasurement of defined benefit obligations	\$ 4,563	\$ (1,276)
Exchange differences on translating foreign operations	184,472	278,226
Total	\$ 189,035	\$ 276,950

B. Reconciliation between income tax expense and accounting profit

Items	Years Ended December 31	
	2017	2016
Income from continuing operations before tax	\$ 659,409	\$ 3,799,895
Income tax expense at the statutory rate	\$ 338,784	\$ 1,045,310
Tax effect of adjusting items:		
Deductible items in determining taxable income	234,498	(485,059)
Tax-exempt income	(530)	(7,170)
Income tax credit	(6,729)	(6,706)
10% additional tax on unappropriated earnings	104,057	102,987
Income tax adjustments on prior years	33,650	3,164
Net changes on deferred income tax		
Temporary differences	(378,916)	54,926
Income tax expense	\$ 324,814	\$ 707,452

Income tax of the Group is filed on an individual company basis. The earnings of KIC, KGH and

KGI are not taxable by the respective local governments. The income tax rate applied of the Company and KF were 17% and comply with Income Basic Tax Act.

The subsidies that are located in China, including KH, KGC and KT are subject to an enterprise income tax rate 25%, KS and KC are entitled to the preferential treatment for advanced technology industries in November 2017 and September 2015, respectively. The applied enterprise income tax rate of KS and KC was 15%.

In February 2018, it was announced 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 \$22,486 thousand and \$54,972 thousand, respectively, in 2018.

C. Income tax assets and liabilities

Items	December 31	
	2017	2016
Income tax assets	\$ 129,819	\$ 79,962
Income tax liabilities	\$ 184,950	\$ 202,716

D. Deferred tax assets or liabilities resulting from temporary differences:

Year ended December 31, 2017						
	Beginning balance	Addition from Acquisition	Recognized in (losses) gains	Recognized in other comprehensive income	Effect of exchange rate difference	Ending Balance
Deferred tax assets						
Temporary differences						
Allowance for doubtful debts	\$ 2,741	\$ -	\$ (609)	\$ -	\$ (198)	\$ 1,934
Loss on decline (gain on reversal) in market value of inventory	46,914	-	(11,154)	-	(2,833)	32,927
Unrealized exchange loss (gain)	588	-	6,639	-	-	7,227
Unrealized profit	46,355	-	(11,760)	-	-	34,595
Net defined benefit liability – noncurrent	11,849	-	(3,860)	-	-	7,989
Remeasurement of defined benefit plans	21,239	-	-	4,563	-	25,802
Impairment losses	3,964	-	-	-	-	3,964
Exchange differences arising on translation of foreign operations	-	-	-	72,049	-	72,049
Provisions	11,449	-	(1,217)	-	(857)	9,375
Depreciation	-	-	42,623	-	464	43,087
Others	24,362	-	5,205	-	(1,425)	28,142
	169,461	-	25,867	76,612	(4,849)	267,091
Deferred tax liabilities						
Temporary differences						
Unrealized exchange gain	(11,162)	-	10,912	-	-	(250)
Deferred depreciation expense	(64,984)	-	19,933	-	4,579	(40,472)
Investment income recognized under equity method	(627,764)	-	316,508	-	-	(311,256)

	Year ended December 31, 2017					
	Beginning balance	Addition from Acquisition	Recognized in (losses) gains	Recognized in other comprehensive income	Effect of exchange rate difference	Ending Balance
Exchange differences on translating foreign operations	\$ (112,423)	\$ -	\$ -	\$ 112,423	\$ -	\$ -
Reserve for land revaluation increment tax	(208,226)	-	-	-	-	(208,226)
Intangibles	(13,384)	-	3,956	-	946	(8,482)
Others	-	(21,688)	1,740	-	(97)	(20,045)
	(1,037,943)	(21,688)	353,049	112,423	5,428	(588,731)
Total	\$ (868,482)	\$ (21,688)	378,916	\$ 189,035	\$ 579	\$ (321,640)

Year ended December 31, 2016					
	Beginning balance	Recognized in (losses) gains	Recognized in other comprehensive income	Effect of exchange rate difference	Ending Balance
Deferred tax assets					
Temporary differences					
Allowance for doubtful debts	\$ 3,447	\$ (645)	\$ -	\$ (61)	\$ 2,741
Loss on decline (gain on reversal) in market value of inventory	45,531	2,097	-	(714)	46,914
Unrealized exchange loss (gain)	426	162	-	-	588
Unrealized profit	72,081	(25,726)	-	-	46,355
Net defined benefit liability – noncurrent	14,876	(3,027)	-	-	11,849
Remeasurement of defined benefit plans	22,515	-	(1,276)	-	21,239
Impairment losses	3,964	-	-	-	3,964
Provisions	19,203	(7,419)	-	(335)	11,449
Others	21,576	3,152	-	(366)	24,362
Subtotal	203,619	(31,406)	(1,276)	(1,476)	169,461
Deferred tax liabilities					
Temporary differences					
Unrealized exchange gain	(17,515)	6,353	-	-	(11,162)
Deferred depreciation expense	(36,239)	(29,389)	-	644	(64,984)
Investment income recognized under equity method	(627,764)	-	-	-	(627,764)
Exchange differences on translating foreign operations	(390,649)	-	278,226	-	(112,423)
Reserve for land revaluation increment tax	(208,226)	-	-	-	(208,226)
Intangibles	(12,145)	(1,452)	-	213	(13,384)
Others	(985)	968	-	17	-
Subtotal	(1,293,523)	(23,520)	278,226	874	(1,037,943)
Total	\$ (1,089,904)	\$ (54,926)	\$ 276,950	\$ (602)	\$ (868,482)

E. As of December 31, 2017, the tax authorities have examined Company's and KF's income tax returns through 2015.

F. Unused tax-exemption information

G. As of December 31, 2017, the profits generated from the following projects of the Company are exempt from income tax for a five-year period:

Expansion Project	Tax-exemption Period
Expansion of 2009	2013 to 2017

H. Integrated income tax information

	December 31	
	2017	2016
<u>Unappropriated earnings</u>		
Earnings generated in and after 1998	\$ — (Note)	\$ 9,551,481
Imputation Credit Account (ICA) balance	\$ — (Note)	\$ 594,456

Note : The amendment of Income Tax Act announced in February 2018 abolished the imputation tax system.

All the earnings generated prior to December 31, 1997 have been appropriated.

The actual creditable ratio for distribution of the Company's earnings 2016 was 7.00%.

In accordance with the Income Tax Act of the Republic of China, the creditable ratio for individual shareholders residing in the Republic of China will be half of the creditable ratio.

(33) Reclassification of other comprehensive income

Items	Years Ended December 31	
	2017	2016
Exchange difference on translation foreign operation		
Exchange difference of the period	\$ (1,085,128)	\$ (1,639,257)
Reclassified to profit and loss on disposal foreign operation	-	2,634
Income tax on exchange difference on translation foreign operation	184,472	278,226
Total	\$ (900,656)	\$ (1,358,397)

(34) Earnings per share

Items	Years ended December 31	
	2017	2016
Basic earnings per share		
Basic earnings per share from continuing operations	\$ 0.38	\$ 3.54
Basic earnings per share from discontinued operations	-	-
Total basic earnings per share	\$ 0.38	\$ 3.54
Diluted earnings per share		
Diluted earnings per share from continuing operations	\$ 0.38	\$ 3.53
Diluted earnings per share from discontinued operations	-	-
Total diluted earnings per share	\$ 0.38	\$ 3.53

Net income and shares attributable to continuing operations for earnings per share are as follow:

Net income

Items	2017	2016
Net income attributable to ordinary shareholders of the parent	\$ 328,967	\$ 3,092,443
Net income attributable to earnings per share	328,967	3,092,443
Net income attributable to discontinued operations for basic earnings per share	(5,630)	-
Net income attributable to continuing operations for basic earnings per share	334,597	3,092,443
Effect of dilutive potential common shares	-	-
Net income attributable to continuing operations for dilutive earnings per share	<u>\$ 334,597</u>	<u>\$ 3,092,443</u>

Shares

Items	2017	2016
Weighted average shares outstanding for basic earnings per share	874,430	874,430
Effect of dilutive potential common shares		
Employees' compensation	168	484
Weighted average shares outstanding for dilutive earnings per share	<u>874,598</u>	<u>874,914</u>

If the Company is able to settle the employee compensation by cash or stocks, the employee compensation should be assumed to be settled in stocks and the resulting potential shares increased should be included in the weighted average shares outstanding in calculation of diluted earnings per share, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the employee compensation by the fair value of the stocks at the balance sheet date. Such dilutive effect of the potential shares need to be included in the calculation of diluted earnings per share until employee compensation are approved in the following year.

In calculating diluted earnings per share, the number of dilutive potential common shares is calculated based on the fair value at the end of reporting period after adjusting the effect of stock and cash dividend. Diluted earnings per share calculation assume the share that have diluted effect would be outstanding of the period, the net income and outstanding shares of the period for calculating diluted earnings per share should be taken into account of the effect of the shares have diluted effect.

(35) Business combination

To expand the market in Europe and offer immediate service, the board of directors made resolutions to acquire 100% equity in STARCO Europe A/S. The date of acquisition is October 2, 2017.

The consideration transferred, assets acquired and liabilities assumed on the acquisition date are as follows:

A. Consideration transferred

The consideration transferred consists of cash \$303,742 thousand and contingent consideration \$ (57,425) thousand. The contingent consideration in the amount of \$57,425 thousand includes the adjustments of loss from disposal of STARCO Lanka, inventory taking and goods recalled.

B. Assets acquired and liabilities assumed at the date of acquisition

The fair values of identifiable assets received and liabilities assumed on the acquisition date from KGI's acquiring STARCO Europe A/S are as follows:

Items	Amount
Assets acquired	
Cash and cash equivalents	\$ 24,356
Accounts receivable	449,448
Other receivables	96,994
Other current assets	61,616
Current income tax assets	757
Inventories	694,108
Assets included in disposal groups held for sale	77,293
Long term equity investments under equity method	63,750
Property, plant and equipment	689,472
Intangible assets	692
Other non-current assets	2,638
Total	2,161,124
Liabilities assumed	
Short-term loans	(849,639)
Accounts payable	(492,282)
Other payables	(341,817)
Current income tax liabilities	(10,306)
Liabilities directly associated with disposal groups held for sale	(9,577)
Long-term loans	(174,598)
Deferred income tax liabilities	(21,688)
Total	(1,899,907)
Net identifiable assets	261,217
Consideration transferred	246,317
Gain from bargain purchase	\$ 14,900

The aforementioned fair value of assets and liabilities are based on the appraisal report from an non-related individual appraiser. The inputs of fair value measurement adopted are level 3.

(a)The excess amount of net assets measured at fair value over the consideration transferred amounted to \$14,900 thousand. This gain from bargain purchase is recognized under other income.

(b)The external attorney fees and audit expenses are \$30,133 thousand in sum. The expenses are recognized under General and Administrative expenses of comprehensive income statements of 2017.

7. RELATED PARTY TRANSACTIONS

Intercompany balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation; therefore, those items are not disclosed in this note. The following is a summary of transactions between the Company and other related parties:

(1) Name and categories of related parties

Name	Related Party Categories
Kenlight Trading Corp.	Other related parties
Jienshang Co., Ltd.	Other related parties
Total Lubricants Taiwan Ltd.	Other related parties
Kenstone Metal Co., Ltd.	Other related parties
Honko Technical Lubricants (Kunshan) Co., Ltd.	Other related parties
Kenstone Metal (K.S.) Co., Ltd.	Other related parties
Americana Development Holding	Other related parties
Yang & Company, LLC	Other related parties
Haro Bikes Corp.	Other related parties
Greentech Holding Corp.	Other related parties
Chia Yu Yang	Other related parties
STARCO Huanmei	Associates

(2) Significant transactions between related parties

A. Revenue

Items	Related Parties Categories	Years Ended December 31	
		2017	2016
Sales of goods	Other related parties	\$ 43,074	\$ 43,275
Service income	Other related parties	1,826	1,935
	Total	\$ 44,900	\$ 45,210

(a) Other related parties (same as indicated below) are other companies or entities of which the chairmen are relatives within the second degree of relationship of the Company's chairman or related parties considered with substantive relationships.

(b) Sales price with related parties was determined and negotiated referring to related market price. Payment term was T/T 45~90 days.

B. Purchases

Items	Related Parties Categories	Years Ended December 31	
		2017	2016
Purchase	Other related parties	\$ 376,355	\$ 288,474

Purchases price with related parties was determined and negotiated referring to related market price. Payment term was T/T 45~90 days.

C. Other transactions

Items	Related Parties Categories	Years Ended December 31	
		2017	2016
Rental income	Other related parties	\$ 2,164	\$ 2,293
Rental expense	Other related parties	24,338	25,714
Factory overheads	Other related parties	17,559	10,992
Marketing expenses	Other related parties	5	12
Research and development expenses	Other related parties	\$ 64	\$ 65

D. Accounts receivable- related parties

Items	Related Party Categories	December 31	
		2017	2016
Accounts receivable	Other related parties	\$ 6,493	\$ 9,484
Other receivable	Other related parties	\$ 2,991	\$ -

E. Accounts payable – related parties

Items	Related Parties Categories	December 31	
		2017	2016
Accounts payable	Other related parties	\$ 81,708	\$ 84,777
Accounts payable	Associates	63,111	-
Total		\$ 144,819	\$ 84,777
Other payables	Other related parties	\$ 4,132	\$ 1,824

(3) Compensation of key management personnel

Items	Years Ended December 31	
	2017	2016
Salary and short-term employee benefits	\$ 19,706	\$ 45,067
Post- employment benefits	82	79
	\$ 19,788	\$ 45,146

8. PLEDGED ASSETS :

The following assets have been pledged as collateral for long-term and sort-term loans.

Items	December 31	
	2017	2016
Accounts receivable (note)	\$ 1,156,256	\$ 1,303,431
Inventories	2,759,320	2,597,749
Property, plant and equipment	1,094,328	715,773

Items	December 31	
	2017	2016
Intangibles	\$ 48,152	\$ 52,181
Restricted deposit (recognized as other financial assets-current)	91,954	-
Total	<u>\$ 5,150,010</u>	<u>\$ 4,669,134</u>

Note: The accounts receivables were eliminated \$347,899 thousand and \$215,638 thousand when preparing the consolidated financial report.

9. SIGNIFICANT CONTINGENCIES LIABILITIES AND UNRECOGNIZED COMMITMENTS:

(1) The unused letters of credit as of December 31, 2017 and 2016, are as follows:

Items	December 31 (in USD thousand)	
	2017	2016
Letter of credit	<u>\$ 20</u>	<u>\$ 123</u>

(2) Capital expenditures contracted at the balance sheet date but not yet incurred are as follows:

Items	December 31	
	2017	2016
Property, plant and equipment	<u>\$ 1,037,086</u>	<u>\$ 1,137,442</u>

(3) Operating lease agreements

The Group leases several parcels of office premises and equipment and warehouse. These operating leases expire between 2015 and 2025. The Group expensed the lease payments of the years 2017 and 2016 are 76,069 thousand and 63,377 thousand. Future minimum lease payments under the above non-cancellable operating leases are as follows:

Items	December 31	
	2017	2016
Within 1 year	\$ 92,326	\$ 13,112
1-5 years	223,862	10,032
Over 5 years	30,415	-
Total	<u>\$ 346,603</u>	<u>\$ 23,144</u>

(4) Contingency

A. Products liability insurance

The Group has entered into a product liability insurance for the product manufactured by the Group and sold globally. The period of insurance agreement is from 2017/8/6 to 2018/8/6. The insurance policy covers from 2004/8/6 to 2018/8/6. The maximum indemnification amount during the policy covering period is USD \$10,000 thousand.

B. The Company had signed an exclusive agency contract with Gabjohn for the product retail

distribution in Nigeria region. Because of local sales strategies, the commissioned trader of the Company switched to another dealer to sale the products in Nigeria region. Hence, Gabjohn had brought a suit to the Company for breaching of exclusive agency contract and claimed for \$90,000 thousand (NGN 500,000 thousand) compensation. Considering the contacting efficiency of the suit in the local region, the Company has signed an attorney agreement with Tommy & Jason International Intellectual Property Rights Co., Ltd. (collectively as the Tommy & Jason), which will contact the lawyer of local intellectual Property Office Adeniji Kazeem & Co. for litigation and will regularly report the related proceedings. The suit is currently in the High Court of Nigeria, and there is still no reasonable estimation and expectation of the possible result of the litigation until March 22, 2018.

10. SIGNIFICANT DISASTERS: NONE

11. SIGNIFICANT SUBSEQUENT EVENTS:

The industrial planning policies of KH do not meet those of Huizhou Zhongkai Hi-tech Industrial Development Zone. The termination of the investment and dissolution of KH has been approved by director's meeting held on March 22, 2018.

12. OTHERS:

(1) Capital risk management

The Group requires an adequate capital structure to enable the expansion and enhancement of equipment. The Group manages its capital in a manner to ensure that it has sufficient and necessary financial resources and operating plan to fund its working capital needs, capital asset purchases, operation expenses, development expenditure and debt payment requirements associated with its existing operations over the next 12 months.

(2) Financial risk management policies

The Group's daily operation activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. For reducing the financial risk, the Group focus on identifying, assessing, and avoiding the unpredictability of market with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The plans for material treasury activities are reviewed by the Board of Directors in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, the Group's Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties

A. Significant financial risks and degrees of financial risks

(a) Market risk

i. Foreign exchange risk

The Group's sales, purchase and borrowing activities denominated in foreign currencies are exposed to foreign currency risk. The Group's mainly functional currency are New

Taiwan dollars, RMB and US dollars. The foreign currency of those transactions are US dollars, RMB, Euro and so on. To prevent the reduction in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Group uses foreign currency loans and derivative financial instruments (include forward exchange agreement) to avoid foreign exchange risks. The usage of derivative financial instruments can assist the Group to reduce but not completely eliminate the influence of changes in foreign exchange rates.

Foreign currency risk and sensitivity analysis

VND is million dollars, others are in thousand

December 31, 2017				
		Foreign Currency	Exchange Rate	New Taiwan Dollars
Financial Assets				
Monetary Items				
USD	\$	328,381	29.76	\$ 9,772,632
EUR		9,184	35.57	326,659
RMB		72,346	4.55	329,498
HKD		4,499	3.81	17,128
GBP		3,198	40.11	128,267
JPY		377,508	0.26	99,738
VND		31,189	1.31	40,889
Non-Monetary Items				
EUR		1,836	35.57	65,370
Financial Liabilities				
Monetary Items				
USD	\$	30,834	29.76	\$ 917,612
EUR		4,256	35.57	151,373
VND		62,982	1.31	82,570
December 31, 2016				
		Foreign Currency	Exchange Rate	New Taiwan Dollars
Financial Assets				
Monetary Items				
USD	\$	378,652	32.25	\$ 12,211,531
EUR		12,472	33.90	422,815
RMB		50,963	4.65	236,924
HKD		4,681	4.16	19,465
GBP		1,366	39.61	54,091
JPY		378,512	0.28	104,318
VND		67,951	1.41	96,115
Financial Liabilities				
Monetary Items				
USD	\$	26,441	32.25	\$ 852,719
EUR		2,011	33.90	68,177
VND		68,140	1.41	96,382

The Group is mainly exposed to US dollar, RMB, and Euro. The sensitivity analysis rate for the Group is 1% increase and decrease in NTD against the relevant foreign currencies. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 1 % change in foreign currency rates. An increase/decrease in profit before tax would be resulted where the NTD strengthens/weakens 1% against the relevant currency with all other variables held constant in the amounts of \$95,558 thousand and \$121,188 thousand for the years ended December 31, 2017 and 2016, respectively.

ii. Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as at fair value through profit or loss.

The Group's investments in equity securities are domestic listed stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 10% with all other variables held constant, profit before tax for the years ended December 31, 2017 and 2016 would have increased/decreased by \$106 thousand and \$84 thousand, respectively.

iii. Interest rate risk

The interest rate of the financial instruments as reporting date was as follow:

Items	December 31	
	2017	2016
Fixed rate		
Financial assets	\$ 3,771,559	\$ 6,536,171
Financial liabilities	(1,089,224)	(754,459)
Net	<u>\$ 2,682,335</u>	<u>\$ 5,781,712</u>
Variable rate		
Financial assets	\$ 7,978,269	\$ 10,113,960
Financial liabilities	(13,918,004)	(13,154,324)
Net	<u>\$ (5,939,735)</u>	<u>\$ (3,040,364)</u>

Sensitivity analysis of fixed-rate instruments

The Group does not classify any fixed-rate instruments as financial instruments at fair value through profit and loss and available-for-sale financial assets. In addition, the Group does not designate derivatives (interest rate swap) as hedge instruments under hedge accounting. Therefore, the change of interest rate at reporting date does not have influence on profit or loss and other comprehensive income.

Sensitivity analysis of floating-rate instruments

The Group's financial instruments with variable interest rate are those with floating-rate. If interest rate increases (decreases) 1%, the profit before tax will increase (decrease)

\$59,397 thousand and \$30,404 thousand for the years ended December 31, 2017 and 2016, respectively.

The Group does not utilize derivative financial instruments of interest rate risk as of December 31, 2016.

(b) Credit risk

Credit risk is the risk that counterparty will default on its contractual obligations under a contract leading to a financial loss to the Group. The Group is exposed to credit risk from operation activities, primarily trade receivable, and from investing activities, primarily deposit and other financial instruments with bank. Credit risk is managed separately for business related and financial related exposures.

i. Business related credit risk

In order to maintain the quality of the trade receivables, the Group established credit risk management procedures related to operations and continues to evaluate. The risk evaluation of individual customers takes into consideration the customers' financial position, internal and external credit ratings and historical transaction records and current economic situation and other factors that may affect the customers' payment ability.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. Because the Group does not have significant credit risk exposure to any single counterparty, concentration of credit risk is not significantly identified.

The Group did not hold any pledge or other credit sources to avoid the credit risk of financial assets.

ii. Financial credit risk

The Group's exposure to financial credit risk which pertained to bank deposits and other financial instruments was evaluated and monitored by Group Treasury function. The Group only deals with creditworthy counterparties and banks, so that no significant financial credit risk was identified.

(c) Liquidity risk

i. Liquidity risk management

The objective of liquidity risk management is to ensure the Group has sufficient liquidity to fund its business requirements of cash and cash equivalents and the unused of financing facilities associated with existing operations.

ii. Financial liabilities with repayment periods

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods.

Non-derivative Financial liabilities:	December 31, 2017			Contract cash flows	Carrying value
	Within 1 year	1-5 years	Over 5 years		
Short-term loan	\$ 1,328,980	\$ -	\$ -	\$ 1,328,980	\$ 1,307,904

December 31, 2017					
Non-derivative Financial liabilities:	Within 1 year	1-5 years	Over 5 years	Contract cash flows	Carrying value
Short-term notes payable	\$ 150,000	\$ -	\$ -	\$ 150,000	\$ 149,407
Notes payable - nonrelated party	149,747	-	-	149,747	149,747
Accounts payable – nonrelated party	2,513,289	-	-	2,513,289	2,513,289
Accounts payable – related party	144,819	-	-	144,819	144,819
Other payables	1,746,377	-	-	1,746,377	1,746,377
Long-term loan (include due within one year)	2,753,671	10,990,001	186,949	13,930,621	13,549,917
Guarantee deposits	-	473,271	-	473,271	473,271
	<u>\$ 8,786,883</u>	<u>\$ 11,463,272</u>	<u>\$ 186,949</u>	<u>\$ 20,437,104</u>	<u>\$ 20,034,731</u>

December 31, 2016					
Non-derivative Financial liabilities:	Within 1 year	1-5 years	Over 5 years	Contract cash flows	Carrying value
Short-term loan	\$ 597,968	\$ -	\$ -	\$ 597,968	\$ 596,461
Short-term notes payable	150,000	-	-	150,000	149,472
Notes payable - nonrelated party	33,066	-	-	33,066	33,066
Accounts payable – nonrelated party	1,888,691	-	-	1,888,691	1,888,691
Accounts payable – related party	84,777	-	-	84,777	84,777
Other payables	1,622,581	-	-	1,622,581	1,622,581
Long-term loan (include due within one year)	3,051,577	10,437,278	97,689	13,586,544	13,162,850
Guarantee deposits	-	484,321	-	484,321	484,321
	<u>\$ 7,428,660</u>	<u>\$ 10,921,599</u>	<u>\$ 97,689</u>	<u>\$ 18,447,948</u>	<u>\$ 18,022,219</u>

The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information of financial instruments

A. Definition of 3 levels of fair value measurements

Level 1: Relevant inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. price) or indirectly (i.e. derived from price).

Level 3: Inputs are unobservable inputs that used to measure fair value to the extent when relevant observable inputs are not available.

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

The fair value of the Group's financial instruments not measured at fair value includes cash and cash equivalents, accounts receivable, other financial assets, refundable deposits, short-term loans, short-term notes payables, payables, long-term loans (include due within one year) and guarantee deposits received whose carrying amount is approximately their fair value, or fair value cannot be reliably measured (financial assets measured at cost).

C. Fair value of financial instruments that are measured at fair value

The financial instruments that are measured at fair value on a recurring basis, the information of fair value listed as follow:

December 31,2017				
	Level 1	Level 2	Level 3	Total
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Listed stocks	\$ 1,062	\$ -	\$ -	\$ 1,062

December 31,2016				
	Level 1	Level 2	Level 3	Total
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Listed stocks	\$ 844	\$ -	\$ -	\$ 844

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

- (a)Fair value of financial instruments traded on active market are determined with reference to quoted market prices. The quoted prices for fair value measurement of listed equity instruments and active debt instruments are referred to main stock exchange market and active government bond trading center.
- (b)Fair value of other financial assets and financial liabilities (except aforementioned in (a)) are determined in accordance with generally accepted pricing model based on the discounted cash flow analysis.

E. Transfer between Level 1 and Level 2 of the fair value hierarchy : none.

F. Changes in level 3 instruments : none.

(4) Category of financial instruments

		December 31	
		2017	2016
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	\$	1,062	\$ 844
Loans and receivables (Note 1)		17,084,965	22,692,607
Financial assets measure at cost		120,917	125,157
<u>Financial liabilities</u>			
Measured at amortized cost (Note 2)	\$	20,034,731	\$ 18,022,219

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable, other receivables, other financial assets and refundable deposits.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise notes payable, accounts payable, other payables, short-term loan, short-term notes payable, long-term loan (include due within one year) and guarantee deposits received.

13. SUPPLEMENTARY DISCLOSURES

(1) Disclosure of significant transactions information (before inter-company eliminations)

- A. Financings provided: Please see Table 1 attached;
- B. Endorsement/guarantee provided: Please see Table 2 attached;
- C. Marketable securities held (excluding investments in subsidiaries, associates and joint venture): Please see Table 3 attached;
- D. Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Please see Table 4 attached;
- E. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: Please see Table 5 attached;
- F. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- G. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- H. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- I. Information about the derivative financial instruments transaction: None;
- J. Intercompany Relationships and Significant Intercompany Transaction: Please see Table 8 attached;

(2) Information on investees (before inter-company eliminations) : Please see Table 9 attached;

(3) Information on investment in Mainland China

- A. The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 10 attached.
- B. Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 8 attached.

14. SEGMENT INFORMATION

(1) General information

For purposes of group management, the Group has provided to the chief operating decision maker

for the purpose of resource allocation and assessment of segment performance focuses on the financial information by geographic plant.

(2) Measurement of segment information

Management monitors the operation results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss before tax and is measured consistently with profit or loss before tax in the consolidated financial statements. Furthermore, the information of assets and liabilities do not report to chief operating decision maker for operation decision making, segment assets and liabilities are not disclosed. The accounting policies for reportable segments are the same as Group's accounting policies described in Note 4.

STARCO Lanka is classified as discontinued operation. The following segment information does not include the amount of discontinued operations. Please see note 6(7) for discontinued operation.

(3) Segment information: Please see Table 11 attached;

(4) Reconciliation for segment income (loss)

The segment revenue and segment income (loss) reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statements of comprehensive income.

(5) Revenue from major products

Items	Years Ended December 31	
	2017	2016
Bicycle tires	\$ 5,502,346	\$ 5,655,008
Dynamic tire	13,980,172	12,767,053
Passenger tire	8,378,230	8,346,622
Others	2,671,938	2,724,945
Total	<u>\$ 30,532,686</u>	<u>\$ 29,493,628</u>

(6) Information on geographic area

The information on geographic area is as follows:

A. Net revenue by nations

Areas	Years Ended December 31	
	2017	2016
China	\$ 8,785,259	\$ 8,378,636
America	9,849,730	9,612,946
Taiwan	1,484,095	1,625,674
Vietnam	1,106,622	1,164,749
Others	9,306,980	8,711,623
Total	<u>\$ 30,532,686</u>	<u>\$ 29,493,628</u>

B. Non-current assets

Areas	December 31	
	2017	2016
Taiwan	\$ 4,273,889	\$ 3,602,247
China	5,820,472	6,113,257
Vietnam	2,595,896	1,351,857
Others	<u>2,544,984</u>	<u>1,717,904</u>

	Areas	December 31	
		2017	2016
Total		\$ 15,235,241	\$ 12,785,265

(7) Major customer information

No customers constituted more than 10% of the Group's total revenue for the years ended December 31, 2017 and 2016.

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
FINANCING PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 1

No. (Note 1)	Financing Company	Counter-party	Financial Statement Item	Related Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn (Note 5)	Interest Rate	Nature for Financing (Note 2)	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Limit on Financing Provided to Each Company (Note 3)	Financing Company's Total Financing Limit (Note 4)
													Item	Value		
1	KGI	KT	Financing receivables	Yes	\$ 227,725 RMB 50,000	\$ — —	\$ — —	2.925%	2	—	Operating capital	—	—	—	\$ 826,247 USD 27,764	\$ 1,239,371 USD 41,646
2	KC	KT	Financing receivables	Yes	1,298,033 RMB 285,000	1,115,853 RMB 245,000	1,115,853 RMB 245,000	3.6565%	2	—	Operating capital	—	—	—	3,314,338 RMB 727,707	4,971,507 RMB 1,091,560
3	KS	KT	Financing receivables	Yes	1,707,938 RMB 375,000	1,639,620 RMB 360,000	1,639,620 RMB 360,000	3.6565%	2	—	Operating capital	—	—	—	2,048,773 RMB 449,835	3,073,159 RMB 674,752
4	KGI	STARCO Europe A/S	Financing receivables	Yes	715,041 EUR 20,000	715,041 EUR 20,000	715,041 EUR 20,000	0.7%	2	—	Operating capital	—	—	—	826,247 USD 27,764	1,239,371 USD 41,646
5	STARCO GB	STARCO Europe A/S	Financing receivables	Yes	72,492 EUR 2,038	71,887 EUR 2,021	71,887 EUR 2,021	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329
6	STARCO Europe A/S	STARCO NV	Financing receivables	Yes	18,212 EUR 512	18,212 EUR 512	18,212 EUR 512	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329
7	STARCO Europe A/S	STARCO France	Financing receivables	Yes	41,937 EUR 1,179	35,997 EUR 1,012	35,997 EUR 1,012	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329
8	STARCO GmbH	STARCO Europe A/S	Financing receivables	Yes	21,911 EUR 616	21,342 EUR 600	21,342 EUR 600	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329
9	STARCO Europe A/S	STARCO IPR	Financing receivables	Yes	78,752 EUR 2,214	78,716 EUR 2,213	78,716 EUR 2,213	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329
10	STARCO Beli	STARCO Europe A/S	Financing receivables	Yes	9,106 EUR 256	3,486 EUR 98	3,486 EUR 98	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329
11	STARCO Europe A/S	STARCO DML	Financing receivables	Yes	16,647 EUR 468	16,611 EUR 467	16,611 EUR 467	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329
12	STARCO IPR	STARCO GS	Financing receivables	Yes	4,553 EUR 128	4,553 EUR 128	4,553 EUR 128	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329

No. (Note 1)	Financing Company	Counter-party	Financial Statement Item	Related Party	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn (Note 5)	Interest Rate	Nature for Financing (Note 2)	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Limit on Financing Provided to Each Company (Note 3)	Financing Company's Total Financing Limit (Note 4)
													Item	Value		
13	STARCO WM	STARCO France	Financing receivables	Yes	18,354 EUR 516	18,354 EUR 516	18,354 EUR 516	0.7%	2	—	Operating capital	—	—	—	126,359 EUR 3,552	189,538 EUR 5,329

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

1. The Company is ‘0’ ◦
2. The subsidiaries are numbered in order starting from ‘1’.

Note 2: Nature of loans:

- 1.Business transaction ◦
- 2.Short-term financing ◦

Note 3: Limit on loans granted by financing company is 40% of the financing company’s net assets based on the latest audited or reviewed financial statements.

Note 4: Limit on total loans granted by financing company is 60% of the financing company’s net assets based on the latest audited or reviewed financial statements.

Note 5: Amount actually drawn have been eliminated upon consolidation.

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 2

No. (Notes 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 4)	Guarantee Provided by Parent company	Guarantee Provided by Subsidiary to Parent Company	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship (Note 2)										
0	The Company	KA	1	\$ 7,679,114	\$ 357,120 USD 12,000	\$ 178,560 USD 6,000	\$ 178,560 USD 6,000	—	0.93%	\$ 15,358,228	Y	N	N
0	The Company	KV	1	7,679,114	700,848 USD 23,550	654,720 USD 22,000	— USD —	—	3.41%	15,358,228	Y	N	N
0	The Company	KGI	2	7,679,114	1,369,445 EUR 38,500	1,369,445 EUR 38,500	— EUR —	—	7.13%	15,358,228	Y	N	N
0	The Company	KS	2	7,679,114	386,880 USD 13,000	386,880 USD 13,000	— USD —	—	2.02%	15,358,228	Y	N	Y
0	The Company	KC	2	7,679,114	1,011,840 USD 34,000	565,440 USD 19,000	— USD —	—	2.95%	15,358,228	Y	N	Y
0	The Company	KT	2	7,679,114	1,041,600 USD 35,000	1,041,600 USD 35,000	— USD —	—	5.43%	15,358,228	Y	N	Y
0	The Company	KI	1	7,679,114	595,200 USD 20,000	595,200 USD 20,000	119,040 USD 4,000	—	3.10%	15,358,228	Y	N	N
0	The Company	STARCO Europe A/S	2	7,679,114	312,161 DKK 65,000	312,161 DKK 65,000 (Note 5)	242,770 DKK 50,551	—	1.63%	15,358,228	Y	N	N
0	The Company	STARCO Baltic	2	7,679,114	312,161 DKK 65,000	312,161 DKK 65,000 (Note 5)	— DKK —	—	1.63%	15,358,228	Y	N	N
0	The Company	STARCO GmbH	2	7,679,114	312,161 DKK 65,000	312,161 DKK 65,000 (Note 5)	— DKK —	—	1.63%	15,358,228	Y	N	N
0	The Company	STARCO DML	2	7,679,114	312,161 DKK 65,000	312,161 DKK 65,000 (Note 5)	— DKK —	—	1.63%	15,358,228	Y	N	N
1	KGH	KS	2	4,991,918	3,643,598 RMB 800,000	3,643,598 RMB 800,000	— RMB —	—	29.20%	9,983,837	N	N	Y
2	KHK	KS	1	1,409,843	910,900 RMB 200,000	910,900 RMB 200,000	— RMB —	—	25.84%	2,819,687	N	N	Y
3	STARCO Europe A/S	STARCO GB	2	254,011	180,495 GBP 4,500	180,495 GBP 4,500	180,495 GBP 4,500	—	56.85%	635,028	N	N	N

No. (Notes 1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 4)	Guarantee Provided by Parent company	Guarantee Provided by Subsidiary to Parent Company	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship (Note 2)										
4	STARCO Europe A/S	STARCO NV	2	254,011	160,065 EUR 4,500	160,065 EUR 4,500	160,065 EUR 4,500	—	50.41%	635,028	N	N	N
5	STARCO Europe A/S	STARCO POL	2	254,011	98,441 PLN 11,500	— PLN —	— PLN —	—	0.00%	635,028	N	N	N

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

1.The Company is '0'.

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

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed:

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

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

Note 3: Limit on endorsements to a single company is 40% of the company's net assets based on the latest audited or reviewed financial statements.

Limit on endorsements to a single company is 40% of KGH's net assets based on the latest audited or reviewed financial statements.

Limit on endorsements to a single company is 40% of KHK's net assets based on the latest audited or reviewed financial statements.

Limit on total endorsements is 80% of STARCO Europe A/S's net assets based on the latest audited or reviewed financial statements.

Note 4: Limit on total endorsements is 80% of the company's net assets based on the latest audited or reviewed financial statements

Limit on total endorsements is 80% of KGH's net assets based on the latest audited or reviewed financial statements.

Limit on total endorsements is 80% of KHK's net assets based on the latest audited or reviewed financial statements.

Limit on total endorsements is 200% of STARCO Europe A/S's net assets based on the latest audited or reviewed financial statements.

Note 5: The balance is shared between the four entities.

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
MARKETABLE SECURITIES HELD
DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 3

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Item	December 31, 2016				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value (Note 1)	
The Company	<u>Stock and Equity</u>							
	China Development Financial Holding Corporation	—	Financial assets at fair value through profit or loss -current	\$ 105	\$ 1,062	—	\$ 1,062	
	Kenjou Ind. Co., Ltd.	Board chairman is the same as the company	Financial assets carried at cost-noncurrent	7,382	16,500	10.86%	—	
	Chang Hwa Golf Co., Ltd.	—	Financial assets carried at cost-noncurrent	30	300	0.08%	—	
	Ou Hua Venture Capital Co., Ltd.	—	Financial assets carried at cost-noncurrent	1,450	5,457	5.15%	—	
	Yu Hua Venture Capital Co., Ltd.	—	Financial assets carried at cost-noncurrent	748	3,565	2.50%	—	
	Total Lubricants Taiwan Ltd	Board chairman is the second immediate family of the chairman	Financial assets carried at cost-noncurrent	81	8,100	6.80%	—	
	BOMY(BVI) CO., LTD.	—	Financial assets carried at cost-noncurrent	2,000	36,313	9.73%	—	
KGI	Kenjou Investment Co. Ltd.	—	Financial assets carried at cost-noncurrent	—	50,682	13.00%	—	

Note 1: Fair value is the closing price on lasted transaction date when the security in an active market.

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS OF IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 4

Company Name	Marketable Securities Type and Name	Financial Statement Item	Counterparty	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance (Note 1)		Note
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain/Loss on Disposal	Shares	Amount	
The Company	Equity KI	Investments accounted for using equity method	—	Subsidiary	—	\$ 1,047,474	—	\$ 309,500	—	—	—	—	—	\$1,151,244	Note 3
KGI	Equity STARCO Europe A/S	Investments accounted for using equity method	—	Subsidiary	—	—	—	246,317 (Note 2)	—	—	—	—	—	199,646	Note 3

Note 1: The ending balance includes the share of profits/losses of investees and other related equity adjustment.

Note 2: Related purchase price may refer to note 6(35).

Note 3: All the transactions had been eliminated when preparing consolidated financial statements.

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS OF IN THOUSANDS OF NEW TAIWAN DOLLARS)

Table 5

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counterparty	Nature of Relationships	Prior Transaction of Related Counterparty				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
The company	Land and building	November 10, 2017	\$ 660,000	Settlement by agreed schedule	Ta Jiang Co., LTD 、Ta Jiang Construction Development Co., LTD and LIN, SHU-LING	Non-related	—	—	—	—	Negotiation	Operating purpose	None

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 6

Purchaser/Seller	Counterparty	Nature of Relationships	Transaction Details				Difference in transaction term to third party transaction		Notes/Accounts Payable or Receivable		Note	
			Purchases/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total		
The Company	ADI	Indirect subsidiary	Sales	\$ 458,595	7.98%	The parties appointed	—	—	Accounts receivable	\$ 138,950	9.78%	Note1
	KA	Subsidiary	Sales	1,675,293	29.16%	"	—	—	Accounts receivable	675,272	47.55%	Note1
	KV	Subsidiary	Sales	201,868	3.51%	"			Accounts receivable	79,936	5.63%	Note1
	KF	Subsidiary	Sales	457,684	7.97%	"	—	—	Accounts receivable	48,544	3.42%	Note1
	KC	Indirect subsidiary	Sales	108,853	1.89%	"			Accounts receivable	28,339	2.00%	Note1
	KS	Indirect subsidiary	Sales	112,399	1.96%	"			Accounts receivable	32,320	2.28%	Note1
KC	ADI	Subsidiary of ultimate parent company	Sales	733,304	7.91%	"	—	—	Accounts receivable	188,423	10.34%	Note1
	KA	Subsidiary of ultimate parent company	Sales	1,083,062	11.69%	"	—	—	Accounts receivable	323,356	17.75%	Note1
	Honko Technical Lubricants (Kunshan) Co., Ltd.	the presidents are relatives within the second degree of relationship of the Company's president	Purchase	164,754	2.94%	"	—	—	Accounts payable	62,267	7.96%	Note1
KT	ADI	Subsidiary of ultimate parent company	Sales	393,803	13.16%	"	—	—	Accounts receivable	135,759	23.90%	Note1
KS	ADI	Subsidiary of ultimate parent company	Sales	644,876	13.39%	"	—	—	Accounts receivable	166,393	30.08%	Note1
KA	ADI	Subsidiary	Sales	193,161	4.97%	"	—	—	Accounts receivable	238,637	39.21%	Note1

Note 1: All the transactions had been eliminated when preparing consolidated financial statements.

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 7

Company Name	Counterparty	Nature of Relationships	Ending Balance of Receivable-Related Party		Turnover Days	Overdue		Amounts Received in Subsequent Period
			Item	Ending Balance (Note 1)		Amount	Action Taken	
The Company	KC	Indirect subsidiary	Accounts receivable	\$ 28,339	—	—	—	\$ 21,645
			Other receivables	90,117				
	KA	Subsidiary	Accounts receivable	675,272	—	—	—	288,084
			Other receivables	35,438				
	ADI	Indirect subsidiary	Accounts receivable	138,950	—	—	—	102,699
			Other receivables	45				
KC	ADI	Subsidiary of ultimate parent company	Accounts receivable	188,423	—	—	—	110,547
	KT	Subsidiary of ultimate parent company	Accounts receivable	8,925	—	—	—	447,376
			Other receivables	1,138,470				
	KA	Subsidiary of ultimate parent company	Accounts receivable	323,356	—	—	—	186,200
KT	ADI	Subsidiary of ultimate parent company	Accounts receivable	135,759	—	—	—	57,770
KGI	STARCO Europe A/S	Subsidiary	Other receivables	716,282	—	—	—	—
KGH	KC	Subsidiary of ultimate parent company	Other receivables	125,844	—	—	—	—
KS	ADI	Subsidiary of ultimate parent company	Accounts receivable	166,393	—	—	—	123,051
	KT	Subsidiary of ultimate parent company	Other receivables	1,667,446	—	—	—	377,389
KA	ADI	Subsidiary	Accounts receivable	238,637				—
STARCO Europe A/S	STARCO NV	Subsidiary	Accounts receivable	357,948	—	—	—	—
			Other receivables	18,212				
STARCO GB	STARCO Europe A/S	Parent company	Accounts receivable	38,047	—	—	—	—
			Other receivables	71,887				
STARCO GmbH	STARCO Europe A/S	Parent company	Accounts receivable	163,088	—	—	—	—
			Other receivables	21,342				
STARCO IPR	STARCO Europe A/S	Parent company	Accounts receivable	208,065	—	—	—	—

Note 1: All the transactions had been eliminated when preparing consolidated financial statements.

Table 8

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTION
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLORS)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Net Consolidated Revenue
0	The Company	ADI	1	Sales revenue	\$ 458,595	Note3	1.50%
		STARCO Europe A/S	1	Other revenue	162	"	—
		STARCO Europe A/S	1	Sales revenue	6,670	"	0.02%
		KC	1	Other revenue	370	"	—
		KC	1	Service revenue	126,798	"	0.42%
		KC	1	Sales revenue	108,853	"	0.36%
		KT	1	Other revenue	1,279	"	—
		KT	1	Service revenue	54,409	"	0.18%
		KT	1	Sales revenue	50,038	"	0.16%
		KI	1	Other revenue	1,515	"	—
		KI	1	Service revenue	9,853	"	0.03%
		KI	1	Sales revenue	91,558	"	0.30%
		KA	1	Other revenue	545	"	—
		KA	1	Sales revenue	1,675,293	"	5.49%
		KV	1	Other revenue	3,199	"	0.01%
		KV	1	Service revenue	43,694	"	0.14%
		KV	1	Sales revenue	201,868	"	0.66%
		KS	1	Other revenue	1,439	"	—
		KS	1	Service revenue	58,163	"	0.19%
		KS	1	Sales revenue	112,399	"	0.37%
		KF	1	Rental income	4,620	"	0.02%
		KF	1	Service revenue	12,248	"	0.04%
		KF	1	Sales revenue	457,684	"	1.50%
1	KC	ADI	3	Sales revenue	733,304	"	2.40%
		STARCO Europe A/S	3	Sales revenue	5,201	"	0.02%
		The Company	2	Sales revenue	9,266	"	0.03%
		KT	3	Other revenue	2,999	"	0.01%
		KT	3	Interest income	39,570	"	0.13%
		KT	3	Sales revenue	65,120	"	0.21%
		KI	3	Sales revenue	84	"	—
		KA	3	Sales revenue	1,083,062	"	3.55%
		KV	3	Sales revenue	4,058	"	0.01%
		KE	3	Sales revenue	855	"	—
		KS	3	Sales revenue	6,247	"	0.02%
		KF	3	Sales revenue	10,679	"	0.03%
2	KT	ADI	3	Sales revenue	393,803	"	1.29%
		The Company	2	Other revenue	1	"	—
		KC	3	Other revenue	11	"	—
		KC	3	Sales revenue	34,773	"	0.11%
		KI	3	Sales revenue	3	"	—
		KA	3	Sales revenue	7,658	"	0.03%
		KE	3	Sales revenue	5,710	"	0.02%
		KS	3	Other revenue	86	"	—
		KS	3	Sales revenue	22,281	"	0.07%
		KV	3	Sales revenue	15,574	"	0.05%
		KI	3	Sales revenue	15,574	"	0.05%
3	KA	ADI	3	Rental income	274	"	—
		ADI	3	Service revenue	18,259	"	0.06%
		ADI	3	Sales revenue	193,161	"	0.63%
		The Company	2	Commisions	10,681	"	0.03%
		The Company	2	Service revenue	3,672	"	0.01%
		KC	3	Commisions	2,308	"	0.01%
		KC	3	Service revenue	2,990	"	0.01%
		KT	3	Service revenue	195	"	—
		KV	3	Service revenue	468	"	—

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Net Consolidated Revenue
4	KA	KS	3	Commissions	1,681	"	0.01%
		KS	3	Service revenue	1,053	"	—
5	ADI	KA	3	Service revenue	1,431	"	—
		KA	3	Sales revenue	20,913	"	0.07%
6	KV	The Company	2	Other revenue	283	"	—
		The Company	2	Sales revenue	316	"	—
		KT	3	Sales revenue	12,908	"	0.04%
		KI	3	Sales revenue	66,731	"	0.22%
7	KE	The Company	2	Other revenue	552	"	—
		The Company	2	Service revenue	5,429	"	0.02%
		KC	3	Other revenue	86	"	—
		KC	3	Service revenue	34,143	"	0.11%
		KT	3	Service revenue	2,384	"	0.01%
		KV	3	Service revenue	11,358	"	0.04%
		KS	3	Service revenue	18,461	"	0.06%
8	KGI	STARCO Europe A/S	3	Interest income	1,199	"	—
		The Company	3	Interest income	5,985	"	0.02%
9	KS	ADI	3	Sales revenue	644,876	"	2.11%
		STARCO Europe A/S	3	Sales revenue	3,024	"	0.01%
		The Company	2	Sales revenue	988	"	—
		KC	3	Sales revenue	10,581	"	0.03%
		KT	3	Other revenue	36	"	—
		KT	3	Interest income	55,025	"	0.18%
		KT	3	Sales revenue	16,829	"	0.06%
		KI	3	Sales revenue	4,367	"	0.01%
		KA	3	Sales revenue	16,998	"	0.06%
10	STARCO Europe A/S	STARCO GB	3	Sales revenue	24,824	"	0.08%
		STARCO GmbH	3	Sales revenue	19,053	"	0.06%
		STARCO NV	3	Sales revenue	22,198	"	0.07%
		STARCO Pol	3	Sales revenue	24,014	"	0.08%
11	STARCO Beli	STARCO GB	3	Sales revenue	20,878	"	0.07%
		STARCO GmbH	3	Sales revenue	32,848	"	0.11%
		STARCO Pol	3	Sales revenue	20,665	"	0.07%
12	STARCO GmbH	STARCO France	3	Sales revenue	16,142	"	0.05%
13	STARCO NV	STARCO Baltic	3	Sales revenue	11,464	"	0.04%
		STARCO S.A.R.L.	3	Sales revenue	29,079	"	0.10%

(Continued)

Table 8

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTION
DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLORS)

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Total Consolidated Assets
0	The Company	ADI	1	Net receivables	\$ 138,995	Note3	0.34%
		STARCO Europe A/S	1	Net receivables	6,094	"	0.01%
		KC	1	Net receivables	118,456	"	0.29%
		KT	1	Net receivables	13,023	"	0.03%
		KI	1	Net receivables	33,801	"	0.08%
		KA	1	Net receivables	710,710	"	1.74%
		KV	1	Net receivables	93,368	"	0.23%
		KS	1	Net receivables	44,754	"	0.11%
		KF	1	Net receivables	50,885	"	0.12%
1	KC	ADI	3	Net receivables	188,423	"	0.46%
		STARCO Europe A/S	3	Net receivables	4,314	"	0.01%
		The Company	2	Net receivables	7,231	"	0.02%
		KT	3	Net receivables	1,147,395	"	2.80%
		KI	3	Net receivables	384	"	—
		KA	3	Net receivables	323,356	"	0.79%
		KV	3	Net receivables	1,812	"	—
		KGCI	3	Net receivables	673	"	—
		KF	3	Net receivables	1,885	"	—
2	KT	ADI	3	Net receivables	135,759	"	0.33%
		KA	3	Net receivables	371	"	—
		KV	3	Net receivables	31	"	—
		KE	3	Net receivables	3,126	"	0.01%
		KS	3	Net receivables	14,025	"	0.03%
3	KI	KC	3	Prepaid expense	1,575	"	—
		KV	3	Net receivables	1,516	"	—
4	KV	KC	3	Net receivables	6	"	—
		KI	3	Net receivables	29,113	"	0.07%
5	KGI	STARCO Europe A/S	3	Net receivables	716,282	"	1.75%
6	KGI	KC	3	Net receivables	125,844	"	0.31%
		KV	3	Net receivables	66,608	"	0.16%
7	KS	ADI	3	Net receivables	166,393	"	0.41%
		STARCO Europe A/S	3	Net receivables	2,482	"	0.01%
		The Company	2	Net receivables	171	"	—
		KC	3	Net receivables	4,921	"	0.01%
		KT	3	Net receivables	1,667,446	"	4.07%
		KI	3	Net receivables	4,314	"	0.01%
		KA	3	Net receivables	3,171	"	0.01%
		KV	3	Net receivables	46	"	—
8	KA	ADI	3	Net receivables	238,637	"	0.58%
		The Company	2	Net receivables	70,687	"	0.17%
		KC	3	Net receivables	15,843	"	0.04%
		KT	3	Net receivables	879	"	—
		KV	3	Net receivables	6,485	"	0.02%
		KS	3	Net receivables	6,457	"	0.02%
9	ADI	KA	2	Net receivables	4,278	"	0.01%
		KGI	3	Net receivables	4,633	"	0.01%
10	KE	KC	3	Net receivables	91	"	—
11	KF	The Company	2	Net receivables	536	"	—

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Total Consolidated Assets
12	STARCO Europe A/S	The Company	2	Net receivables	218	"	—
		KC	3	Net receivables	592	"	—
		KS	3	Net receivables	393	"	—
		STARCO DML	3	Net receivables	16,611	"	0.04%
		STARCO France	3	Net receivables	35,997	"	0.09%
		STARCO IPR	3	Net receivables	78,716	"	0.19%
		STARCO NV	3	Net receivables	376,160	"	0.92%
		STARCO Pol	3	Net receivables	38,070	"	0.09%
13	STARCO GB	STARCO Europe A/S	3	Net receivables	109,934	"	0.27%
14	STARCO GmbH	STARCO Europe A/S	3	Net receivables	184,430	"	0.45%
		STARCO France	3	Net receivables	36,289	"	0.09%
15	STARCO IPR	STARCO Europe A/S	3	Net receivables	208,065	"	0.51%
		STARCO GS	3	Net receivables	4,553	"	0.01%
16	STARCO WM	STARCO France	3	Net receivables	18,354	"	0.04%
17	STARCO Beli	STARCO Europe A/S	3	Net receivables	3,486	"	0.01%

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

No 1. Parent company is '0'.

No 2. The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to:

No 1. Parent company to subsidiary.

No 2. Subsidiary to parent company.

No 3. Subsidiary to subsidiary.

Note 3: The Company sells finished goods, raw materials, and merchandise to related parties. Sale prices with related parties were determined and negotiated referring to related market price. Payment terms were T/T 60~90 days.

Note 4: All the transactions had been eliminated when preparing consolidated financial statements.

(Concluded)

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS AND FOREIGN CURRENCIES)

Table 9

Investor	Investee	Location	Main Businesses activities	Original Investment Amount		Balance as of December 31, 2016			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
The Company	KA	Note 1	Trading and investing activities	USD 9,000	USD 9,000	—	100.00%	\$ 1,131,269	\$ 217,568	\$ 217,568	Note 29
	KHK	Note 2	Trading and investing activities	HKD 100 USD 30,600	HKD 100 USD 30,600	—	100.00%	3,523,704	22,426	22,426	Note 29
	KV	Note 3	Manufacturing of various types of tires	USD 19,680	USD 11,680	—	100.00%	4,520,629	423,457	415,257	Note 29
	KIC	Note 4	Investing activities	USD 103,253	USD 131,253	—	100.00%	14,556,248	(241,901)	(241,901)	Note 29
	KE	Note 5	Marketing planning activities	EUR 25	EUR 25	—	100.00%	8,918	3,037	3,037	Note 29
	KF	Note 6	Manufacturing of various types of tires	199,000	199,000	19,900	100.00%	245,183	41,323	41,323	Note 29
	KI	Note 7	Manufacturing of various types of tires	USD 44,999	USD 34,999	—	99.99%	1,151,244	(97,314)	(97,312)	Note 29
KA	ADI	Note 8	Manufacturing and distributes wheels, wheels assemblies and mounted tires	USD 20,000	USD 20,000	—	100.00%	USD 38,467	USD 5,677	Note 26	Note 29
KIC	KGH	Note 9	Trading and investing activities	USD 112,050	USD 112,050	—	100.00%	USD 419,348	(USD 5,715)	Note 26	Note 29
	KGI	Note 10	Investing activities	USD 1,703	USD 1,703	—	100.00%	USD 69,409	(USD 2,522)	Note 26	Note 29
KGI	STARCO Europe A/S	Note 11	Investing activities	EUR 6,893	—	—	100.00%	USD 6,709	(USD 2,306)	Note 26	Note 29
STARCO Europe A/S	STARCO GB	Note 12	Selling of various types of tires	EUR 552	—	—	100.00%	EUR 3,708	EUR 357	Note 26	Note 29
	STARCO GmbH	Note 13	Selling of various types of tires	EUR 511	—	—	100.00%	EUR 9,154	(EUR 975)	Note 26	Note 29
	STARCO Pol	Note 14	Selling of various types of tires	EUR 34	—	—	100.00%	EUR 1,707	EUR 354	Note 26	Note 29
	STARCO NV	Note 15	Selling of various types of tires	EUR 1,810	—	—	100.00%	(EUR 308)	(EUR 1,836)	Note 26	Note 29
	STARCO GS	Note 16	Selling of various types of tires	EUR 299	—	—	100.00%	(EUR 56)	EUR 76	Note 26	Note 29
	STARCO Baltic	Note 17	Selling of various types of tires	EUR 3	—	—	100.00%	EUR 69	EUR 9	Note 26	Note 29
	STARCO France	Note 18	Selling of various types of tires	EUR 183	—	—	100.00%	(EUR 267)	EUR 743	Note 26	Note 29
	STARCO Beli	Note 19	Manufacturing and selling of various types of tires	EUR 9,741	—	—	100.00%	EUR 10,112	EUR 398	Note 26	Note 29
	STARCO DML	Note 20	Manufacturing and selling of various types of tires	EUR 1,030	—	—	100.00%	EUR 277	EUR 95	Note 26	Note 29

Table 9

Investor	Investee	Location	Main Businesses activities	Original Investment Amount		Balance as of December 31, 2016			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
STARCO France W.M.SARL	STARCO Lanka	Note 21	Manufacturing and selling of various types of tires	EUR 1,530	—	—	100.00%	(EUR 819)	(EUR 884)	Note 26	Note 29
	STARCO Jelshoj	Note 22	Investing activities	EUR 3	—	—	100.00%	Note 28	Note 28	Note 26	Note 29
	STARCO IPR	Note 23	Investing activities	EUR 17	—	—	100.00%	EUR 6,961	EUR 409	Note 26	Note 29
	STARCO W.M.	Note 24	Investing activities	EUR 8	—	—	100.00%	EUR 200	(EUR 231)	Note 26	Note 29
	STARCO S.L.S.A.	Note 25	Investing activities	EUR 37	—	—	100.00%	(EUR 66)	(EUR 15)	Note 26	Note 29

Note1 : 7095 Americana Parkway Reynoldsburg, OHIO 43068 USA.

Note2 : Room C, 11 / F, 558-560 Nathan Road, Yau Ma Tei, Kowloon, Hong Kong.

Note3 : Cho Chieu Str., Ho Nai 3 Commune Trang Bom Dist., Don Nai Pro.Vietnam

Note4 : Scotia centre, 4th Floor, P.O.Box 2804, George Town, Grand Cayman, Cayman Islands. British West Indies.

Note5 : Greimelstraße 28 83236 Übersee Germany

Note6 : 59, xinsheng Rd xinsheng Rd Yuanlin Township, Changhua County 510 Taiwan.

Note7 : J1. Raya Cikande Rangkasbitung KM.5,Desa Kareo, Kec.Jawilan.

Note8 : 7095 Americana Parkway Drive, Reynoldsburg, OH 43068 USA.

Note9 : Scotia centre, 4th Floor, P.O.Box 2804, George Town, Grand Cayman, Cayman Islands.

Note10 : Suite 802, St James Court St Denis Street, Port Louis, Mauritius.

Note11 : Sintrupvej 71 B, st. tv.,8220 Brabrand, Denmark

Note12 : Wheelhouse Road, Towers Business Park, Rugeley, Staffordshire, WS15 1UZ

Note13 : Benzstr. 21, 21423 Winsen (Luhe)

Note14 : ul. Duńska 3, 39-300 Mielec

Note15 : Hoge Mauw 675, 2370 Arendonk

Note16 : Gewerbestrasse 3, 4553 Subingen

Note17 : Lõõtsa tn 5, Tallinn city, Harju county, 11415

Note18 : 1 rue Simon Laplace Parc d'Archevilliers Immeuble L'Iliade 28000 Chartres

Note19 : Osječka 1a, 31300 Beli Manastir

Note20 : Unit 6, Marshfield Bank Employment Park, Crewe, Cheshire, CW2 8UY

Note21 : 84 Biyagama, Export Processing Zone, Phase 2, Walgama – Malwana

Note22 : Osječka 1a, 31300 Beli Manasti

Note23 : Gewerbestrasse 3, 4553 Subingen

Note24 : Zone Industrielle les Vosseries, 7 Rue Philippe Lebon, 78730 Saint-Arnoult-en-Yvelines

Note25 : Zone Industrielle les Vosseries, 7 Rue Philippe Lebon, 78730 Saint-Arnoult-en-Yvelines

Note26 : the share of profits/losses of the investee company is not reflected herein as such amount is already included in the share of profits/losses of the investor company.

Note27 : Information On Investment In Mainland China, Please Refer To Table 10 .

Note28 : The carrying value and net income (losses) of the investee were already included in the share of profits/losses of STARCO Beli.

Note29 : The transactions had been eliminated when preparing the consolidated financial statements.

KENDA RUBBER IND. CO., LTD AND SUBSIDIARIES
INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017

(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS, OTHERS ARE IN THOUSAND DOLLAR)

Table 10

Investee Company	Main Businesses and activities	Total Amount of Paid-in Capital	Investment Method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Amount remitted from Taiwan for the year ended December 31, 2017		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits/Losses (Note 3)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017 Outflow (Note 9)
					Remittance to	Remittance back						
KS	Manufacturing and selling of various types of tires	\$ 744,000 USD 25,000	Note 1	\$ 744,000 USD 25,000	—	—	\$ 744,000 USD 25,000	\$ 238,733 USD 7,845	100%	\$ 267,339 USD 8,785	\$ 5,065,420 USD 170,209	\$ 3,779,520 USD 127,000
KC	Manufacturing and selling of various types of tires	2,083,200 USD 70,000	Note 1、9	2,083,200 USD 70,000	—	—	2,083,200 USD 70,000	100,924 RMB 22,401	100%	Note 4	Note 4	—
KT	Manufacturing and selling of various types of tires	3,571,200 USD 120,000	Note 1、2、10	464,256 USD 15,600	—	—	464,256 USD 15,600	(559,875) (USD 18,398)	100%	(550,806) (USD 18,100)	1,837,234 USD 61,735	—
KGCI	Investing activities	2,112,960 USD 71,000	Note 1、2	—	—	—	—	124,920 USD 4,105	100%	124,920 USD 4,105	8,686,884 USD 291,898	—
KH	Manufacturing and selling of various types of tires	892,800 USD 30,000	Note 1、2	—	—	—	—	(43,365) (USD 1,425)	100%	(43,365) (USD 1,425)	903,067 USD 30,345	—
Shang Hai Bomy Foodstuff Co., Ltd.	Manufacturing and selling of various types of foods and drinks	595,200 USD 20,000	Note 1	59,520 USD 2,000	—	—	59,520 USD 2,000	—	10%	—	36,313	—
Cooper Kenda	Manufacturing and selling of various passenger car	—	Note 1、5	1,473,120 USD 49,500	—	833,280 USD 28,000	639,840 USD 21,500	—	—	—	—	—
IHX	Internal and external parts for automobiles	777,718 USD 26,133	Note 1	50,682 USD 1,703	—	—	50,682 USD 1,703	—	2.6%	—	50,682 USD 1,703	—
STARCO Huanmei	Manufacturing and selling of various types of tires	32,070 EUR 897	Note 1	Note 12	—	—	Note 12	3,077 EUR 86	33%	1,015 EUR 28	65,370 EUR 1,836	—

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
4,041,498	9,529,241	Note 7
USD 135,803 (Note 6)	USD 320,203 (Note 6)	

Note 1: Investing in an existing company through third area, and invested the investee in Mainland China.

Note 2: The differences due from subsidiaries remittance to Mainland China for the capital increment using its dividend received.

Note 3: Profit or loss recognized were based on the financial statements audited by the same auditor of parent company or the international accounting firms in cooperation with accounting firms of R.O.C.

Note 4: The share of profits/losses and carrying amount for the year and as of year end of KC are not disclosed herein as such amount were already included in the relevant information of the investors

(Continued)

Note 5: Cooper Kenda Global Holding Co., Ltd. has been disposed on March 2, 2011 and filed to MOEAIC, the proceeds of disposal in the amount of USD 28,000 thousand has remitted back on October 5, 2017, the investement cost in the amount of USD 21,500 thousand did not deduct from the accumulated remittance of investment from Taiwan to Mainland China.

Note 6: One of the difference between the amount USD 320,203 thousand approved by MOEAIC and the amount accumulated remittance from Taiwan to Mainland China of USD 135,803 thousand was remittance directly from foreign subsidiary to Mainland China using its dividend received; the other was the approved amount not yet remited to invest in Mainland China as of December 31, 2017, which included of USD 49,000 thousand of KGCI.

Note 7: The Company obtained the certificate of operation headquarter approved by Industrial Development Bureau of Ministry of Economic Affairs, there was no limit on investment in Mainland China.

Note 8: According to “Regulation Governing the Approval of Investment or Technical Cooperation in Mainland China”, the dividends or earnings remitted back to Taiwan of the investor could deduct from the accumulated amount remitted from Taiwan to Mainland China. As of December 31,2017, the accumulated amount remitted from Taiwan to Mainland China is USD 163,803 thousand, the accumulated remitted back to Taiwan is USD 73,000 thousand.

Note 9: The paid-in capital of KC were included in the inventor’s investment capital, these were not included in calculating the amount of investment authorized and the investment remittance from Taiwan to Mainland China.

Note 10: KT’s merging KJ had been filed and approved by the MOEAIC on March 14, 2017.

Note 11: Foreign currencies aforementioned were translated into NTD using the exchange rate as of December 31, 2017 or average exchange rate for the year ended.

Note 12 : Indirectly acquired from business combination.

(Concluded)

Table 11

KENDA RUBBER IND. CO., LTD AND ITS SUBSIDIARIES
SEGMENT INFORMATION
YEAR ENDED DECEMBER 31, 2017 AND 2016
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Year ended December 31, 2017									
	The company	KA	KV	KS	KC	KT	Others	Elimination	Total
Revenue									
Net revenue from external customers	\$ 2,582,192	\$ 9,651,971	\$ 2,974,628	\$ 4,117,046	\$ 7,349,106	\$ 2,529,131	\$ 1,328,612	\$ -	\$ 30,532,686
Inter-segment revenue	3,468,123	8,378	79,955	697,663	1,917,876	464,228	87,349	(6,723,572)	-
Total	<u>\$ 6,050,315</u>	<u>\$ 9,660,349</u>	<u>\$ 3,054,583</u>	<u>\$ 4,814,709</u>	<u>\$ 9,266,982</u>	<u>\$ 2,993,359</u>	<u>\$ 1,415,961</u>	<u>\$ (6,723,572)</u>	<u>\$ 30,532,686</u>
Interest income	<u>\$ 3,083</u>	<u>\$ 4,884</u>	<u>\$ 1,421</u>	<u>\$ 100,832</u>	<u>\$ 96,937</u>	<u>\$ 1,492</u>	<u>\$ 27,612</u>	<u>\$ (101,779)</u>	<u>\$ 134,482</u>
Interest expenses	<u>\$ 139,024</u>	<u>\$ 41,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,476</u>	<u>\$ 12,180</u>	<u>\$ (102,486)</u>	<u>\$ 193,421</u>
Depreciation and amortization	<u>\$ 261,847</u>	<u>\$ 83,889</u>	<u>\$ 78,979</u>	<u>\$ 87,689</u>	<u>\$ 275,023</u>	<u>\$ 280,279</u>	<u>\$ 44,560</u>	<u>\$ -</u>	<u>\$ 1,112,266</u>
Segment benefit (loss)	<u>\$ 59,256</u>	<u>\$ 316,174</u>	<u>\$ 554,892</u>	<u>\$ 282,944</u>	<u>\$ 115,380</u>	<u>\$ (550,814)</u>	<u>\$ (119,438)</u>	<u>\$ -</u>	<u>\$ 658,394</u>
Share of profit of associates accounted for using equity method									1,015
Income (loss) before tax									<u>\$ 659,409</u>
Total assets									<u>\$ 40,953,042</u>

(Continued)

Table 10

KENDA RUBBER IND. CO., LTD AND ITS SUBSIDIARIES
SEGMENT INFORMATION
YEAR ENDED DECEMBER 31, 2017 AND 2016
(AMOUNTS IN THOUSANDS OF NEW TAIWAN DOLLARS)

Year ended December 31, 2016									
	The company	KA	KV	KS	KC	KT	Other	Elimination	Total
Revenue									
Net revenue from									
external customers	\$ 2,887,781	\$ 9,670,499	\$ 3,144,255	\$ 4,221,499	\$ 6,957,668	\$ 2,302,703	\$ 309,223	\$ -	\$ 29,493,628
Inter-segment revenue	3,366,951	7,534	95	764,620	2,267,880	332,791	60,814	(6,800,685)	-
Total	<u>\$ 6,254,732</u>	<u>\$ 9,678,033</u>	<u>\$ 3,144,350</u>	<u>\$ 4,986,119</u>	<u>\$ 9,225,548</u>	<u>\$ 2,635,494</u>	<u>\$ 370,037</u>	<u>\$ (6,800,685)</u>	<u>\$ 29,493,628</u>
Interest income	<u>\$ 4,089</u>	<u>\$ 3,762</u>	<u>\$ 2,113</u>	<u>\$ 94,257</u>	<u>\$ 115,020</u>	<u>\$ 1,278</u>	<u>\$ 22,934</u>	<u>\$ (118,686)</u>	<u>\$ 124,767</u>
Interest expenses	<u>\$ 131,250</u>	<u>\$ 37,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218</u>	<u>\$ 119,767</u>	<u>\$ 3</u>	<u>\$ (118,686)</u>	<u>\$ 170,034</u>
Depreciation and									
amortization	<u>\$ 226,718</u>	<u>\$ 78,325</u>	<u>\$ 88,405</u>	<u>\$ 91,913</u>	<u>\$ 334,629</u>	<u>\$ 286,282</u>	<u>\$ 1,641</u>	<u>\$ -</u>	<u>\$ 1,107,913</u>
Segment benefit (loss)	<u>\$ 1,003,093</u>	<u>\$ 107,141</u>	<u>\$ 904,041</u>	<u>\$ 1,098,585</u>	<u>\$ 1,025,738</u>	<u>\$ (352,677)</u>	<u>\$ 13,974</u>	<u>\$ -</u>	<u>\$ 3,799,895</u>
Income (loss) before									
tax									<u>\$ 3,799,895</u>
Total assets									<u>\$ 41,877,392</u>

(Concluded)