

China Motor Corporation

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
China Motor Corporation

Opinion

We have audited the accompanying financial statements of China Motor Corporation (the Corporation), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (refer to Other Matter section), the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the financial statements of the Corporation for the year ended December 31, 2017 are stated as follows:

Evaluation of Write-down of Inventory

Inventories of the Corporation are stated at the lower of cost or net realizable value. The estimation of the net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Since rapid changes in market conditions may have a material impact on the result of such evaluation which could lead to the risk of inventory

being inactive or obsolete, the evaluation of the write-off of inventory has been identified as a key audit matter.

Our audit procedures in respect of the evaluation of the impairment of inventory included:

- Discussing with management whether the accounting methods and calculations of the evaluation of inventory had any significant changes;
- Taking stock and verifying the authenticity of documentary evidence of the net realizable value of inventory, such as sales invoices, in order to verify the accuracy of the calculation of the net realizable value of inventory.

Revenue Recognition

Domestic sales of vehicles is material to the Corporation's financial statements. Since the sales of vehicles is subject to the market situation and might lead to recognizing revenue in advance of the appropriate point of recognition, revenue recognition has been identified as a key audit matter.

Our audit procedures in respect of revenue recognition included:

- Discussing with management whether the accounting methods for revenue recognition were appropriate and consistently applied;
- Testing the design of the revenue recognition internal controls and the operating effectiveness of such controls as well as verifying the authenticity of sales transaction-related documentary evidence;
- Performing cut-off tests, including examining transaction terms in sales contracts and vehicle delivery receipts, in order to verify whether the risks and rewards of the merchandise were truly transferred and whether the timing of revenue recognition was accurate.

Other Matter

We did not audit the financial statements as of and for the years ended December 31, 2017 and 2016 of Daimler Vans Hong Kong Ltd., Shung Ye Motors Corporation, and Uni Auto Parts Manufacture Co., Ltd. in which the Corporation had equity-method investments, but such financial statements were audited by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for these investees in the Corporation's accompanying financial statements, is based solely on the reports of the other auditors. The aforementioned equity-method investments were 4.3% (NT\$2,464,539 thousand) and 3.6% (NT\$1,988,412 thousand) of the Corporation's total assets as of December 31, 2017 and 2016, respectively. The Corporation's share of equity of the aforementioned equity-method investments amounted to NT\$503,989 thousand and NT\$37,615 thousand in comprehensive income for the years ended December 31, 2017 and 2016, respectively, which amounted to 13.5% and 1.9% of the Corporation's total equity, respectively.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chih-Ming Shao and Ya-Ling Wong.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2018

Notice to Readers

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

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

CHINA MOTOR CORPORATION

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 10,463,977	18	\$ 10,850,490	20
Financial assets at fair value through profit or loss (Notes 4 and 7)	510,417	1	812	-
Available-for-sale financial assets (Notes 4 and 8)	-	-	573,314	1
Debt investments with no active market (Notes 4 and 13)	700,000	1	32,308	-
Notes receivable, net (Notes 4 and 10)	644	-	78,508	-
Accounts receivable, net (Notes 4 and 10)	405,828	1	592,873	1
Trade receivables from related parties (Notes 4 and 25)	1,247,304	2	1,084,214	2
Other receivables (Notes 4 and 25)	579,841	1	52,984	-
Inventories (Notes 4, 5 and 11)	3,305,140	6	4,016,463	7
Prepayments (Note 25)	832,957	2	200,926	-
Other current assets (Notes 4, 9, 21 and 26)	<u>153,150</u>	<u>-</u>	<u>212,864</u>	<u>1</u>
Total current assets	<u>18,199,258</u>	<u>32</u>	<u>17,695,756</u>	<u>32</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets (Notes 4 and 8)	726,472	1	844,812	2
Financial assets measured at cost (Notes 4 and 12)	11,678	-	60,408	-
Debt investments with no active market (Notes 4, 13 and 25)	1,674,851	3	1,986,392	4
Investments accounted for using the equity method (Notes 4 and 14)	31,227,631	55	30,119,626	54
Property, plant and equipment (Notes 4, 15 and 25)	3,654,637	6	3,471,752	6
Investment properties (Notes 4 and 16)	821,458	2	840,077	1
Intangible assets under development (Note 4)	154,628	-	142,571	-
Deferred tax assets (Notes 4 and 21)	312,300	1	330,384	1
Other non-current assets	<u>71,232</u>	<u>-</u>	<u>81,124</u>	<u>-</u>
Total non-current assets	<u>38,654,887</u>	<u>68</u>	<u>37,877,146</u>	<u>68</u>
TOTAL	<u>\$ 56,854,145</u>	<u>100</u>	<u>\$ 55,572,902</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable	\$ 1,899,056	3	\$ 1,772,068	3
Trade payables to related parties (Note 25)	777,592	2	775,955	2
Other payables (Note 17)	1,993,148	4	2,130,334	4
Current tax liabilities (Notes 4 and 21)	162,209	-	129,135	-
Other current liabilities (Notes 4, 7, 9 and 25)	<u>137,533</u>	<u>-</u>	<u>206,634</u>	<u>-</u>
Total current liabilities	<u>4,969,538</u>	<u>9</u>	<u>5,014,126</u>	<u>9</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 21)	-	-	116	-
Net defined benefit liabilities (Notes 4 and 18)	926,925	1	1,129,182	2
Other non-current liabilities	<u>7,661</u>	<u>-</u>	<u>7,823</u>	<u>-</u>
Total non-current liabilities	<u>934,586</u>	<u>1</u>	<u>1,137,121</u>	<u>2</u>
Total liabilities	<u>5,904,124</u>	<u>10</u>	<u>6,151,247</u>	<u>11</u>
EQUITY (Notes 4 and 19)				
Ordinary shares	<u>13,840,508</u>	<u>24</u>	<u>13,840,508</u>	<u>25</u>
Capital surplus	<u>6,407,340</u>	<u>11</u>	<u>6,407,220</u>	<u>12</u>
Retained earnings				
Legal reserve	8,487,293	15	8,168,383	14
Special reserve	1,051,658	2	1,051,658	2
Unappropriated earnings	<u>20,895,137</u>	<u>37</u>	<u>19,399,595</u>	<u>35</u>
Total retained earnings	<u>30,434,088</u>	<u>54</u>	<u>28,619,636</u>	<u>51</u>
Other equity				
Exchange differences on translating foreign operations	(485,118)	(1)	(268,058)	(1)
Unrealized gain on available-for-sale financial assets	765,456	2	850,984	2
Total loss on effective portion of cash flow hedges (Notes 6 and 9)	<u>(12,253)</u>	<u>-</u>	<u>(28,635)</u>	<u>-</u>
Total other equity	<u>268,085</u>	<u>1</u>	<u>554,291</u>	<u>1</u>
Total equity	<u>50,950,021</u>	<u>90</u>	<u>49,421,655</u>	<u>89</u>
TOTAL	<u>\$ 56,854,145</u>	<u>100</u>	<u>\$ 55,572,902</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 26, 2018)

CHINA MOTOR CORPORATION

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

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 25)				
Net sales	\$ 29,760,535	98	\$ 30,132,433	99
Other operating revenue	<u>474,162</u>	<u>2</u>	<u>444,673</u>	<u>1</u>
Total operating revenue	<u>30,234,697</u>	<u>100</u>	<u>30,577,106</u>	<u>100</u>
OPERATING COSTS (Notes 9, 11, 18, 20 and 25)				
Cost of goods sold	25,414,411	84	25,259,945	82
Other operating costs	<u>219,050</u>	<u>1</u>	<u>195,311</u>	<u>1</u>
Total operating costs	<u>25,633,461</u>	<u>85</u>	<u>25,455,256</u>	<u>83</u>
GROSS PROFIT	4,601,236	15	5,121,850	17
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>4,883</u>	<u>-</u>	<u>6,508</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>4,606,119</u>	<u>15</u>	<u>5,128,358</u>	<u>17</u>
OPERATING EXPENSES (Notes 18, 20 and 25)				
Selling and marketing expenses	484,373	1	289,151	1
General and administrative expenses	612,604	2	557,882	2
Research and development expenses	<u>1,444,708</u>	<u>5</u>	<u>2,017,732</u>	<u>6</u>
Total operating expenses	<u>2,541,685</u>	<u>8</u>	<u>2,864,765</u>	<u>9</u>
PROFIT FROM OPERATIONS	<u>2,064,434</u>	<u>7</u>	<u>2,263,593</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Share of profit of subsidiaries, associates and joint ventures (Notes 4 and 14)	2,074,512	7	1,169,594	4
Interest income (Notes 4 and 25)	153,187	-	166,394	1
Other income (Note 25)	62,326	-	49,742	-
Gain on disposal of investments (Note 12)	103,432	-	33,078	-
Gains on financial instruments at fair value through profit or loss (Note 4)	-	-	5,348	-
Other expenses	(1,539)	-	(1,159)	-
Foreign exchange losses	(48,462)	-	(158,377)	(1)
Loss on financial assets at fair value through profit or loss (Note 4)	(6,247)	-	-	-
Impairment loss (Notes 4, 12 and 25)	<u>(62,000)</u>	<u>-</u>	<u>(113)</u>	<u>-</u>
Total non-operating income	<u>2,275,209</u>	<u>7</u>	<u>1,264,507</u>	<u>4</u>

(Continued)

CHINA MOTOR CORPORATION

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

	2017		2016	
	Amount	%	Amount	%
PROFIT BEFORE INCOME TAX	\$ 4,339,643	14	\$ 3,528,100	12
INCOME TAX EXPENSE (Notes 4 and 21)	<u>234,000</u>	<u>1</u>	<u>339,000</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>4,105,643</u>	<u>13</u>	<u>3,189,100</u>	<u>11</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 18)	(20,130)	-	(198,649)	(1)
Share of other comprehensive loss of subsidiaries and associates (Note 14)	(59,176)	-	(114,876)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 21)	3,422	-	33,770	-
Items that may be reclassified subsequently to profit or loss:				
Unrealized loss on available-for-sale financial assets (Note 19)	(118,561)	-	(57,706)	-
Total gains (losses) on effective portion of cash flow hedges (Note 19)	21,774	-	(36,190)	-
Share of the other comprehensive loss of subsidiaries, associates and joint ventures accounted for using the equity method (Notes 14 and 19)	(185,717)	(1)	(827,843)	(3)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 19 and 21)	<u>(3,702)</u>	<u>-</u>	<u>6,153</u>	<u>-</u>
Other comprehensive loss for the year (net of income tax)	<u>(362,090)</u>	<u>(1)</u>	<u>(1,195,341)</u>	<u>(4)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,743,553</u>	<u>12</u>	<u>\$ 1,993,759</u>	<u>7</u>
EARNINGS PER SHARE (IN NEW TAIWAN DOLLARS; Note 22)				
Basic	<u>\$ 3.01</u>		<u>\$ 2.34</u>	
Diluted	<u>\$ 3.01</u>		<u>\$ 2.34</u>	

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

(With Deloitte & Touche audit report dated March 26, 2018)

(Concluded)

CHINA MOTOR CORPORATION

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

	Ordinary Shares		Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Other Equity	Total Gain (Loss) on Effective Portion of Cash Flow Hedges	Total Equity
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings		Unrealized Gain (Loss) on Available-for-sale Financial Assets		
BALANCE AT JANUARY 1, 2016	1,384,051	\$ 13,840,508	\$ 6,404,906	\$ 7,851,773	\$ 1,051,673	\$ 18,896,608	\$ 571,137	\$ 897,338	\$ 1,402	\$ 49,515,345
Appropriation of 2015 earnings										
Legal reserve	-	-	-	316,610	-	(316,610)	-	-	-	-
Cash dividends distributed by the Corporation - NT\$1.5 per share	-	-	-	-	-	(2,076,076)	-	-	-	(2,076,076)
Reversal of special reserve	-	-	-	-	(15)	15	-	-	-	-
Change in investments in associates and joint ventures accounted for using the equity method	-	-	2,314	-	-	(13,687)	-	-	-	(11,373)
Net profit for the year ended December 31, 2016	-	-	-	-	-	3,189,100	-	-	-	3,189,100
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(279,755)	(839,195)	(46,354)	(30,037)	(1,195,341)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	2,909,345	(839,195)	(46,354)	(30,037)	1,993,759
BALANCE AT DECEMBER 31, 2016	1,384,051	13,840,508	6,407,220	8,168,383	1,051,658	19,399,595	(268,058)	850,984	(28,635)	49,421,655
Appropriation of the 2016 earnings										
Legal reserve	-	-	-	318,910	-	(318,910)	-	-	-	-
Cash dividends distributed by the Corporation - NT\$1.6 per share	-	-	-	-	-	(2,214,481)	-	-	-	(2,214,481)
Change in investments in associates and joint ventures accounted for using the equity method	-	-	120	-	-	(826)	-	-	-	(706)
Net profit for the year ended December 31, 2017	-	-	-	-	-	4,105,643	-	-	-	4,105,643
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(75,884)	(217,060)	(85,528)	16,382	(362,090)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	4,029,759	(217,060)	(85,528)	16,382	3,743,553
BALANCE AT DECEMBER 31, 2017	<u>1,384,051</u>	<u>\$ 13,840,508</u>	<u>\$ 6,407,340</u>	<u>\$ 8,487,293</u>	<u>\$ 1,051,658</u>	<u>\$ 20,895,137</u>	<u>\$ (485,118)</u>	<u>\$ 765,456</u>	<u>\$ (12,253)</u>	<u>\$ 50,950,021</u>

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

(With Deloitte & Touche audit report dated March 26, 2018)

CHINA MOTOR CORPORATION

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 4,339,643	\$ 3,528,100
Adjustments for:		
Depreciation expenses	737,307	672,479
Amortization expenses	82,374	75,484
Net gain (loss) on fair value change of financial instruments at fair value through profit or loss	6,247	(5,348)
Interest expense	45	65
Interest income	(153,187)	(166,394)
Dividend income	(24,276)	(27,344)
Share of profit of subsidiaries, associates and joint ventures	(2,074,512)	(1,169,594)
Gain on disposal of property, plant and equipment	(2,781)	(1,854)
Gain on disposal of investments	(31,923)	-
Impairment loss	-	113
Impairment loss of non-financial assets	62,000	-
Realized gain on the transactions with associates	(4,883)	(6,508)
Unrealized loss on foreign currency exchange, net	29,723	80,469
Changes in operating assets and liabilities		
Financial assets held for trading	(512,898)	86,921
Notes receivable	77,864	28,074
Accounts receivable	183,760	(198,341)
Trade receivables from related parties	(164,187)	(32,614)
Other receivables	(3,318)	(2,818)
Inventories	711,323	(248,360)
Prepayments	(632,031)	412,233
Other current assets	52,741	(101,712)
Accounts payables	127,533	(55,056)
Payables to related parties	(5,112)	82,982
Other payables	(138,394)	20,825
Other current liabilities	(67,871)	59,435
Net defined benefit liabilities	(222,387)	(890,137)
Cash generated from operations	2,372,800	2,141,100
Income tax paid	(177,636)	(230,531)
Net cash generated from operating activities	<u>2,195,164</u>	<u>1,910,569</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in financial assets designated as at fair value through profit or loss upon initial recognition	-	61,391
Decrease in available-for-sale financial assets	573,093	50,384
Acquisition of debt investments with no active market	(1,796,144)	(2,763,701)
Proceeds from the repayments of principal of debt investments with no active market	1,443,145	2,881,550
Acquisition of investments accounted for using the equity method	(22,298)	(623)

(Continued)

CHINA MOTOR CORPORATION

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

	2017	2016
Proceeds from the disposal of investments accounted for using the equity method	\$ 91,116	\$ -
Acquisition of property, plant and equipment	(1,003,914)	(656,113)
Proceeds from disposal of property, plant and equipment	43,122	22,495
Other receivables of related parties	(500,000)	-
Acquisition of intangible assets	(49,865)	-
Increase in other non-current assets	(34,674)	(50,913)
Interest received	127,528	166,683
Dividends received	<u>761,902</u>	<u>919,485</u>
Net cash (used in) generated from investing activities	<u>(366,989)</u>	<u>630,638</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in other non-current liabilities	(162)	214
Cash dividends paid	(2,214,481)	(2,076,076)
Interest paid	<u>(45)</u>	<u>(65)</u>
Net cash used in financing activities	<u>(2,214,688)</u>	<u>(2,075,927)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(386,513)	465,280
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>10,850,490</u>	<u>10,385,210</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 10,463,977</u>	<u>\$ 10,850,490</u>

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

(With Deloitte & Touche audit report dated March 26, 2018)

(Concluded)

CHINA MOTOR CORPORATION

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

1. GENERAL INFORMATION

China Motor Corporation (the “Corporation”) manufactures and sells cars and related parts. Its shares are listed on the Taiwan Stock Exchange.

2. APPROVAL OF FINANCIAL STATEMENTS

The accompany financial statements were approved by the board of directors and authorized for issue on March 26, 2018.

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

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

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

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

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

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

When the amendments are applied retrospectively from January 1, 2017, the disclosure of related party transactions is enhanced. Refer to Note 25 for the related disclosures.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

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

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

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

The initial application of the above New Revised Standards and Interpretations, whenever applied, would not have any material impact on the Corporation’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

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

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

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

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

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

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

- a) Listed shares and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss or designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides this, unlisted shares measured at cost will be measured at fair value instead; and
- b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

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

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

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

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

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Debt investments with no active market - current	\$ 700,000	\$ (700,000)	\$ -
Financial assets measured at amortized cost - current	-	700,000	700,000
Financial assets at fair value through profit or loss - non-current	-	703,983	703,983
Available-for-sale financial assets - non-current	726,472	(726,472)	-
Financial assets at fair value through other comprehensive income - non-current	-	38,933	38,933
Financial assets measured at cost - non-current	11,678	(11,678)	-
Debt investments with no active market - non-current	1,674,851	(1,674,851)	-
Financial assets measured at amortized cost - non-current	-	1,669,553	1,669,553
Investments accounted for using the equity method	<u>31,227,631</u>	<u>397,924</u>	<u>31,625,555</u>
Total effect on assets	<u>\$ 34,340,632</u>	<u>\$ 397,392</u>	<u>\$ 34,738,024</u>
Retained earnings	\$ 20,895,137	\$ 888,982	\$ 21,784,119
Other equity	<u>765,456</u>	<u>(491,590)</u>	<u>273,866</u>
Total effect on equity	<u>\$ 21,660,593</u>	<u>\$ 397,392</u>	<u>\$ 22,057,985</u>

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect an entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way the hedging cost of derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

The assessment of the Corporation's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9. On adoption of IFRS 9, the forward element of forward contracts may be elected to be recognized in other comprehensive income and accumulated in other equity and accounted for subsequently to be reclassified to profit or loss or be included directly in the carrying amount of the asset or the liability recognized for the hedged items, and the above treatments are expected to be applied prospectively.

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

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

The Corporation will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the interpretation.

Except for the above impact, as of the date the financial statements were authorized for issue, the Corporation assesses that the application of other standards and interpretations will have no material impact on the Corporation's financial position and financial performance.

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

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

Note 1: Unless stated otherwise, the above New Revised Standards and Interpretations 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.

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

The initial application of the above New Revised Standards and Interpretations, whenever applied, would not have any material impact on the Corporation's accounting policies, except for the following:

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 Corporation 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 Corporation may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the statements of comprehensive income, the Corporation should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within financing activities.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations").

b. Basis of preparation

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

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

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Foreign currencies

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

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

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

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

For the purposes of presenting financial statements, the assets and liabilities of the Corporation's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of the reporting year. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Corporation and non-controlling interests as appropriate).

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

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

e. Inventories

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

f. Investments accounted for using equity method

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

1) Investment in subsidiaries

Subsidiary is an entity that is controlled by the Corporation.

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

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

When the Corporation's share of losses of a subsidiary equals or exceeds its interest in that subsidiary, the Corporation continues recognizing its share of further losses.

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

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

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

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

2) Investment in associates and joint ventures

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

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

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate and joint venture. The Corporation also recognizes the changes in the Corporation's share of equity of associates and joint venture attributable to the Corporation. The Corporation's equity in the investees' net income or net loss is calculated using the treasury share method when investees also have investments in the Corporation (reciprocal holding).

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

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

or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Corporation's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture, the Corporation discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

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

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

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

g. Property, plant and equipment

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

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

Depreciation of property, plant and equipment, except for tooling (included in machinery) which is amortized using the production unit method, is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimate accounted for on a prospective basis.

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

h. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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

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

i. Intangible assets

Expenditures on research activities are recognized as expenses in the period in which they are incurred.

An internally-generated intangible asset arising from the development phase of an internal project is recognized if, and only if all of the following have been demonstrated:

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- 2) The intention to complete the intangible asset and use or sell it;
- 3) The ability to use or sell the intangible asset;
- 4) How the intangible asset will generate probable future economic benefits;
- 5) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- 6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Subsequent to initial recognition, they are measured at cost less accumulated amortization and accumulated impairment loss.

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

j. Impairment of tangible and intangible assets

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

Financial assets are classified as at fair value through profit or loss when the financial asset is held for trading.

i. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Fair value is determined in the manner described in Note 24.

ii. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

iii. Loans and receivables

Loans and receivables (including cash and cash equivalents, debt investments with no active market, note receivable and accounts receivable (including related parties), other receivables, other financial assets (included in other current assets) and guarantee deposits paid (included in other non-current assets) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

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

For financial assets measured at amortized cost, such as accounts receivable are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situations.

For 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.

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

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

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When accounts 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 carrying amount of the allowance account are recognized in profit or loss except for uncollectible accounts receivable that is written off against the allowance account.

c) Derecognition of financial assets

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

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

2) Derivative financial instruments

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

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

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

l. Hedge accounting

The Corporation designates certain hedging instruments as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gains or losses relating to the ineffective portion are recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Corporation revokes the designated hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised, or when the hedging instrument no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately in profit or loss.

m. Provisions

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

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products at the best estimate by the management of the Corporation of the expenditures required to settle the Corporation's obligations.

n. Revenue recognition

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

1) Sale of goods

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

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

2) Rendering of services

Service income including that from operating services provided under service concession arrangements is recognized when services are provided.

3) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement and provided that it is probable that the economic benefits will flow to the Corporation and that the amount of revenue can be measured reliably. Royalties determined on a time basis are recognized on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement.

4) Dividend and interest income

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

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

o. Government grants

Government grants are not recognized until there is reasonable assurance that the Corporation will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Corporation recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Corporation should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Net defined benefit liabilities represent the actual deficit in the Corporation's defined benefit plans.

q. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Write-down of Inventory

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash		
Cash on hand	\$ 2,208	\$ 3,009
Checking accounts and demand deposits	<u>1,481,461</u>	<u>1,904,477</u>
	<u>1,483,669</u>	<u>1,907,486</u>
Cash equivalents		
Time deposits	8,007,632	8,424,332
Repurchase agreements collateralized by bonds	<u>972,676</u>	<u>518,672</u>
	<u>8,980,308</u>	<u>8,943,004</u>
	<u>\$ 10,463,977</u>	<u>\$ 10,850,490</u>

Cash equivalents, for the purpose of meeting short-term cash commitments, consist of highly liquid time deposits and repurchase agreements collateralized by bonds that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The interest rate intervals of cash in banks and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	December 31	
	2017	2016
Checking accounts and demand deposits	0.00%-2.00%	0.00%-2.00%
Time deposits	0.16%-1.115%	0.29%-1.17%
Repurchase agreements collateralized by bonds	0.37%-0.39%	0.35%-0.40%

The Corporation's hedging strategy is to buy Japanese yen (JPY) at the spot rate on December 31, 2017 and 2016 so as to avoid foreign currency exposure in relation to Japanese yen (JPY) forecasted purchases. When the forecasted purchases will actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

At the end of the reporting period, Japanese yen (JPY) bought at the spot rate, which was not offset, was as follows:

December 31, 2017

Currency	Due Date	Notional Amount (In Thousands)
JPY/NTD	2018.01.18-2018.03.20	JPY471,108/NTD124,467

December 31, 2016

Currency	Due Date	Notional Amount (In Thousands)
JPY/NTD	2017.01.28-2017.02.15	JPY853,173/NTD235,135

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
<u>Financial assets</u>		
Held for trading		
Non-derivative financial assets		
Mutual funds	\$ 510,417	\$ -
Derivative financial assets		
Forward foreign exchange contracts	<u>-</u>	<u>812</u>
	<u>\$ 510,417</u>	<u>\$ 812</u>
<u>Financial liabilities (included in other current liabilities)</u>		
Financial liabilities held for trading		
Derivative financial liabilities		
Foreign exchange rate swaps	<u>\$ 2,954</u>	<u>\$ -</u>

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

December 31, 2017

Transaction	Currency	Maturity Date	Notional Amount (In Thousands)
Buy	USD/NTD	2018.01.31-2018.03.29	USD14,000/NTD416,839

December 31, 2016

Transaction	Currency	Maturity Date	Notional Amount (In Thousands)
Buy	USD/NTD	2017.2.14	USD1,000/NTD31,385

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
<u>Current</u>		
Domestic investments		
Mutual funds	\$ -	\$ 573,314
<u>Non-current</u>		
Domestic investments		
Unlisted shares	\$ 703,983	\$ 732,680
Listed shares	22,489	112,132
	<u>\$ 726,472</u>	<u>\$ 844,812</u>

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGING

	December 31	
	2017	2016
Derivative financial assets under hedge accounting <u>(included in other current assets)</u>		
Foreign exchange forward contracts	\$ -	\$ 1,371
Derivative financial liabilities under hedge accounting <u>(included in other current liabilities)</u>		
Foreign exchange forward contracts	\$ 12,362	\$ 16,546

The Corporation's hedging strategy is to enter into foreign exchange forward contracts to avoid exchange rate exposure on its forecasted Japanese yen (JPY) purchases. When the forecasted purchases actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

The Corporation's outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

Transaction	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2017</u>			
Buy	JPY/NTD	2018.01.31-2018.07.31	JPY2,002,019/NTD538,393
<u>December 31, 2016</u>			
Buy	JPY/NTD	2017.02.24-2017.07.31	JPY1,200,000/NTD347,250

Gains and losses of hedging instruments reclassified from equity to cost of goods sold were \$42,106 thousand and \$6,188 thousand for the years ended December 31, 2017 and 2016, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2017	2016
<u>Notes receivable</u>		
Notes receivable - operating	\$ 650	\$ 79,301
Less: Allowance for impairment loss	<u>(6)</u>	<u>(793)</u>
	<u>\$ 644</u>	<u>\$ 78,508</u>
<u>Accounts receivable</u>		
Accounts receivable	\$ 409,927	\$ 598,827
Less: Allowance for impairment loss	<u>(4,099)</u>	<u>(5,954)</u>
	<u>\$ 405,828</u>	<u>\$ 592,873</u>

In determining the recoverability of notes receivable and accounts receivable, the Corporation considered any change in the credit quality of the notes receivables and accounts receivable since the date credit was initially granted to the end of the reporting period. Due to insignificant risks on the recoverability of the Corporation's notes receivable and accounts receivable historically, allowance for impairment loss was recognized based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

The aging of receivables was as follows:

	December 31	
	2017	2016
0 days	\$ 380,313	\$ 656,672
1-60 days	24,069	11,342
61-90 days	4,724	2,111
More than 90 days	<u>1,471</u>	<u>8,003</u>
	<u>\$ 410,577</u>	<u>\$ 678,128</u>

The above aging schedule was based on the number of past due days from the end of the credit term.

The allowance for impairment loss of notes receivable and accounts receivable of the Corporation was collectively assessed, and the movements were as follows:

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 6,747	\$ 5,022
Add: Impairment losses recognized on receivables	-	1,725
Less: Impairment losses reversed	<u>(2,642)</u>	<u>-</u>
Balance at December 31	<u>\$ 4,105</u>	<u>\$ 6,747</u>

11. INVENTORIES

	December 31	
	2017	2016
Finished goods	\$ 1,609,822	\$ 1,980,271
Work in progress	19,868	65,243
Raw materials	1,504,284	1,727,687
Materials in transit	<u>171,166</u>	<u>243,262</u>
	<u>\$ 3,305,140</u>	<u>\$ 4,016,463</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$25,414,411 thousand and \$25,259,945 thousand, respectively. The cost of goods sold for the years ended December 31, 2017 and 2016 included inventory write-downs of \$55,173 thousand and \$13,997 thousand, respectively.

12. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	2016
Domestic unlisted ordinary shares	\$ 8,207	\$ 56,937
Overseas unlisted ordinary shares	<u>3,471</u>	<u>3,471</u>
	<u>\$ 11,678</u>	<u>\$ 60,408</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 11,678</u>	<u>\$ 60,408</u>

Management believed that the above unlisted equity investments held by the Corporation had fair values which could not be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of reporting period.

The Corporation recognized impairment losses of \$113 thousand in 2016, on these investments based on forecasted cash flows and the market return rate.

The Corporation acquired an additional 5% interest of Uni-Calsonic Corporation in 2017, which led to an increase of its holding from 18.2% to 23.2%. Thus, this was deemed as that the Corporation disposing of financial assets measured at cost and acquiring investments accounted for using the equity method at market value on the day on which the Corporation began exercising significant influence over Uni-Calsonic Corporation. The Corporation recognized a disposal benefit of \$31,517 thousand for the year ended December 31, 2017 in accordance with the market value on the day on which the Corporation began exercising significant influence over Uni-Calsonic Corporation.

13. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2017	2016
<u>Current</u>		
Negotiable certificates of deposit	\$ 700,000	\$ -
Bonds	<u>-</u>	<u>32,308</u>
	<u>\$ 700,000</u>	<u>\$ 32,308</u>
<u>Non-current</u>		
Bonds	\$ 1,168,136	\$ 1,176,965
Principal guaranteed notes	506,715	512,487
Preference shares	<u>-</u>	<u>296,940</u>
	<u>\$ 1,674,851</u>	<u>\$ 1,986,392</u>

- The coupon rate of negotiable certificates of deposit was 0.83% per annum as of December 31, 2017.
- The range of coupon rates of bonds was 1.02%-4.80% and 1.59%-5.88% per annum as of December 31, 2017 and 2016, respectively.
- The coupon rate of principal guaranteed notes was 3.85% per annum as of both December 31, 2017 and 2016.
- The preference shares' coupon rate was 3.70% per annum as of December 31, 2016.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2017	2016
Investments in subsidiaries	\$ 9,635,435	\$ 9,207,293
Investments in associates	19,830,665	19,616,928
Investments in joint ventures	<u>1,761,531</u>	<u>1,295,405</u>
	<u>\$ 31,227,631</u>	<u>\$ 30,119,626</u>

- Investments in subsidiaries

	December 31	
Name of Subsidiaries	2017	2016
Listed companies		
Kian Shen	<u>\$ 1,949,604</u>	<u>\$ 1,802,753</u>
Unlisted companies		
Sino Diamond Motors	2,847,155	2,762,828
Alliance Investment & Management	1,606,144	1,644,020
China Motor Investment	1,176,885	1,092,175
Hwa Wei Holdings	783,225	721,913
COC Tooling & Stamping	769,612	756,924

(Continued)

Name of Subsidiaries	December 31	
	2017	2016
Gatetech Technology	\$ 283,222	\$ 213,675
China Engine	153,364	147,964
Hwa Chung Motors	66,224	65,041
Hwa Hann	-	-
	<u>7,685,831</u>	<u>7,404,540</u>
	<u>\$ 9,635,435</u>	<u>\$ 9,207,293</u>
		(Concluded)

Name of Subsidiaries	Proportion of Ownership and Voting Rights December 31	
	2017	2016
Listed company		
Kian Shen	43.87%	43.87%
Unlisted companies		
Sino Diamond Motors	100.00%	100.00%
Alliance Investment & Management	100.00%	100.00%
China Motor Investment	100.00%	100.00%
Hwa Wei Holdings	40.00%	40.00%
COC Tooling & Stamping	49.76%	49.76%
Gatetech Technology	56.53%	56.53%
China Engine	18.95%	18.95%
Hwa Chung Motors	100.00%	100.00%
Hwa Hann	48.99%	48.99%

Although the Corporation's equity interests in Kian Shen and COC Tooling & Stamping each did not exceed 50%, the Corporation had control over these investees. Thus, Kian Shen and COC Tooling & Stamping were included in the Corporation's consolidated financial statements.

The Corporation's investments in Hwa Wei Holdings, China Engine and Hwa Hann, although each amount to less than 50% of the investee's outstanding ordinary shares, were accounted for using the equity method since the combined respective investments of the Corporation and its subsidiaries in these companies exceeded 50% of their respective outstanding ordinary shares.

In April 2009, the board of directors of Hwa Hann decided to dissolve Hwa Hann; as of December 31, 2017, the liquidation has not been completed.

The investments in subsidiaries accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments are based on the subsidiaries' audited financial statements audited for the same years.

b. Investments in associates

Associates	December 31	
	2017	2016
Material associates		
Yulon	\$ 11,280,053	\$ 11,238,239
Associates that are not individually material	<u>8,550,612</u>	<u>8,378,689</u>
	<u>\$ 19,830,665</u>	<u>\$ 19,616,928</u>

1) Material associates

Refer to Table 6 for the nature of activities, principal place of business and country of incorporation of the associates.

The Corporation has held 16.80% of interest in Yulon as of December 31, 2017 and 2016, as of both dates.

The Corporation exercises significant influence over Yulon and applies the equity method of accounting because the Corporation and Yulon share the same president of the board of directors even though the Corporation holds a less than 20% of interest in Yulon.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were based on the associates' financial statements which have been audited by for the same year.

Fair value (Level 1) of investments in associates with available published price quotations are summarized as follows:

Name of Associate	December 31	
	2017	2016
Yulon	<u>\$ 6,332,810</u>	<u>\$ 7,027,715</u>

Above associates are accounted for using the equity method.

The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Corporation for equity accounting purposes.

Yulon

	December 31	
	2017	2016
Current assets	\$ 169,428,441	\$ 131,584,835
Non-current assets	88,988,066	89,686,806
Current liabilities	(158,832,963)	(132,381,417)
Non-current liabilities	<u>(20,462,405)</u>	<u>(9,827,404)</u>
Equity	79,121,139	79,062,820
Non-controlling interests	<u>(8,688,986)</u>	<u>(9,348,274)</u>
	<u>\$ 70,432,153</u>	<u>\$ 69,714,546</u>
Proportion of the Corporation's ownership	16.80%	16.80%
Equity attributable to the Corporation	\$ 11,832,602	\$ 11,712,044
Cross shareholdings	<u>(552,549)</u>	<u>(473,805)</u>
Carrying amount	<u>\$ 11,280,053</u>	<u>\$ 11,238,239</u>

	<u>For the Year Ended December 31</u>	
	2017	2016
Operating revenue	\$ <u>94,111,028</u>	\$ <u>112,166,685</u>
Net profit for the year	\$ 3,078,421	\$ 1,779,223
Other comprehensive loss	<u>(870,238)</u>	<u>(1,928,172)</u>
Total comprehensive income (loss) for the year	\$ <u>2,208,183</u>	\$ <u>(148,949)</u>
Dividends received from Yulon	\$ <u>131,114</u>	\$ <u>236,005</u>

2) Aggregate information of associates that are not individually material

	<u>For the Year Ended December 31</u>	
	2017	2016
The Corporation's share of:		
Net profit for the year	\$ 659,525	\$ 679,059
Other comprehensive loss	<u>(42,256)</u>	<u>(211,333)</u>
Total comprehensive income for the year	\$ <u>617,269</u>	\$ <u>467,726</u>

All the associates are accounted for using the equity method.

Investments in associates that are not individually material were accounted for using the equity method although the Corporation holds less than 20% interest since the Corporation exercises significant influence on their major transactions or shares the same president of the board.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were based on the associates' financial statements audited which have been audited for the same year.

c. Investments in joint ventures

	<u>December 31</u>	
	2017	2016
Joint ventures that are not individually material	\$ <u>1,761,531</u>	\$ <u>1,295,405</u>

Aggregate information of joint ventures that are not individually material

	<u>For the Year Ended December 31</u>	
	2017	2016
The Corporation's share of:		
Net profit for the year	\$ 478,741	\$ 143,910
Other comprehensive loss	<u>(12,615)</u>	<u>(117,596)</u>
Total comprehensive income for the year	\$ <u>466,126</u>	\$ <u>26,314</u>

All joint ventures are accounted for using the equity method.

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments was based on the joint ventures' financial statements audited by the auditor for the same year.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery	Other Equipment	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 665,075	\$ 84,441	\$ 3,055,392	\$ 21,238,541	\$ 1,030,176	\$ 506,965	\$ 26,580,590
Additions	-	-	-	1,070	73,731	581,312	656,113
Disposals	-	-	(80)	(536,933)	(51,138)	-	(588,151)
Reclassifications	-	2,945	10,893	593,100	52,643	(671,689)	(12,108)
Balance at December 31, 2016	<u>\$ 665,075</u>	<u>\$ 87,386</u>	<u>\$ 3,066,205</u>	<u>\$ 21,295,778</u>	<u>\$ 1,105,412</u>	<u>\$ 416,588</u>	<u>\$ 26,636,444</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2016		\$ 72,318	\$ 2,612,737	\$ 19,510,106	\$ 882,944	\$ -	\$ 23,078,105
Disposals		-	(80)	(536,933)	(30,497)	-	(567,510)
Depreciation expenses		4,165	67,608	547,075	35,249	-	654,097
Reclassifications		-	-	66	(66)	-	-
Balance at December 31, 2016		<u>\$ 76,483</u>	<u>\$ 2,680,265</u>	<u>\$ 19,520,314</u>	<u>\$ 887,630</u>	<u>\$ -</u>	<u>\$ 23,164,692</u>
Carrying amounts at December 31, 2016	<u>\$ 665,075</u>	<u>\$ 10,903</u>	<u>\$ 385,940</u>	<u>\$ 1,775,464</u>	<u>\$ 217,782</u>	<u>\$ 416,588</u>	<u>\$ 3,471,752</u>
<u>Cost</u>							
Balance at January 1, 2017	\$ 665,075	\$ 87,386	\$ 3,066,205	\$ 21,295,778	\$ 1,105,412	\$ 416,588	\$ 26,636,444
Additions	-	-	-	-	60,783	943,131	1,003,914
Disposals	-	(2,571)	-	(643,092)	(112,061)	-	(757,724)
Reclassifications	-	1,874	19,212	717,198	50,396	(788,680)	-
Balance at December 31, 2017	<u>\$ 665,075</u>	<u>\$ 86,689</u>	<u>\$ 3,085,417</u>	<u>\$ 21,369,884</u>	<u>\$ 1,104,530</u>	<u>\$ 571,039</u>	<u>\$ 26,882,634</u>
<u>Accumulated depreciation and impairment</u>							
Balance at January 1, 2017		\$ 76,483	\$ 2,680,265	\$ 19,520,314	\$ 887,630	\$ -	\$ 23,164,692
Disposals		(2,571)	-	(643,042)	(71,770)	-	(717,383)
Impairment loss		-	-	62,000	-	-	62,000
Depreciation expenses		2,826	68,714	608,157	38,991	-	718,688
Reclassifications		35	257	(26)	(266)	-	-
Balance at December 31, 2017		<u>\$ 76,773</u>	<u>\$ 2,749,236</u>	<u>\$ 19,547,403</u>	<u>\$ 854,585</u>	<u>\$ -</u>	<u>\$ 23,227,997</u>
Carrying amounts at December 31, 2017	<u>\$ 665,075</u>	<u>\$ 9,916</u>	<u>\$ 336,181</u>	<u>\$ 1,822,481</u>	<u>\$ 249,945</u>	<u>\$ 571,039</u>	<u>\$ 3,654,637</u>

As a result of the declining sale in the market of several types of vehicles, the estimated future cash flows expected to arise from related equipment decreased. Thus, the Corporation recognized impairment loss of \$62,000 thousand in 2017. The Corporation determined the recoverable amount of the relevant assets on the basis of their value in use. The discount rate used in measuring value in use was 6.69% per annum.

Except for tooling (included in machinery), which is depreciated on an expected production quantity basis, the above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Category	
Land improvements	3-20 years
Buildings	3-55 years
Machinery	3-15 years
Other equipment	3-15 years

16. INVESTMENT PROPERTIES

Cost

Balance at January 1, 2016	\$ 1,278,905
Reclassification	<u>12,108</u>

Balance at December 31, 2016 \$ 1,291,013

Accumulated depreciation and impairment

Balance at January 1, 2016	\$ 432,554
Depreciation expenses	<u>18,382</u>

Balance at December 31, 2016 \$ 450,936

Carrying amounts at December 31, 2016 \$ 840,077

Cost

Balance at January 1, 2017 and December 31, 2017 \$ 1,291,013

Accumulated depreciation and impairment

Balance at January 1, 2017	\$ 450,936
Depreciation expenses	<u>18,619</u>

Balance at December 31, 2017 \$ 469,555

Carrying amounts at December 31, 2017 \$ 821,458

The investment properties held by the Corporation were depreciated over their estimated 10-60 years useful lives, using the straight-line method.

The fair value of investment properties of the Corporation were \$1,279,874 thousand and \$1,328,640 thousand as of December 31, 2017 and 2016, respectively. Except for a part of investment properties appraised by the independent valuer, Po Hung Chen, as of December 31, 2017 and 2016, the remaining investment properties as of December 31, 2017 and 2016 were appraised by the Corporation's management using the valuation model which other market participants frequently use. The valuation from management was arrived at by reference to market evidence of transaction prices for similar properties. The independent valuer's valuation referenced the weighted-average cost analysis and revenue method and assumed a discount rate of 3.04% and a capitalization rate of 2.24% as of both dates.

17. OTHER PAYABLES

	December 31	
	2017	2016
Payable for salaries or bonuses	\$ 952,139	\$ 1,063,230
Payable for warranties	222,876	154,642
Payable for taxes	124,083	150,637
Provisions for employee benefit	109,397	116,791
Payable for advertisement	105,795	7,285
Others	<u>478,858</u>	<u>637,749</u>
	<u>\$ 1,993,148</u>	<u>\$ 2,130,334</u>

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The defined benefit plan adopted by the Corporation in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Corporation contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Corporation has no right to influence the investment policy and strategy.

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

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 2,083,628	\$ 2,054,800
Fair value of plan assets	<u>(1,156,703)</u>	<u>(925,618)</u>
Net defined benefit liabilities	<u>\$ 926,925</u>	<u>\$ 1,129,182</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2016	<u>\$ 1,868,681</u>	<u>\$ (48,011)</u>	<u>\$ 1,820,670</u>
Service cost			
Current service cost	38,956	-	38,956
Past service cost	8,479	-	8,479
Net interest expense (income)	<u>30,366</u>	<u>(930)</u>	<u>29,436</u>
Recognized in loss (profit)	<u>77,801</u>	<u>(930)</u>	<u>76,871</u>
Remeasurement			
Return on plan assets	-	(4,109)	(4,109)
Actuarial loss - changes in demographic assumptions	6,760	-	6,760
Actuarial loss - changes in financial assumptions	147,562	-	147,562
Actuarial loss - experience adjustments	<u>48,436</u>	<u>-</u>	<u>48,436</u>
Recognized in other comprehensive income	<u>202,758</u>	<u>(4,109)</u>	<u>198,649</u>
Contributions from the employer	-	(913,836)	(913,836)
Benefits paid	(41,268)	41,268	-
Portion of benefits paid by the Corporation	<u>(53,172)</u>	<u>-</u>	<u>(53,172)</u>
Balance at December 31, 2016	<u>2,054,800</u>	<u>(925,618)</u>	<u>1,129,182</u>
Service cost			
Current service cost	39,750	-	39,750
Net interest expense (income)	<u>20,548</u>	<u>(9,347)</u>	<u>11,201</u>
Recognized in loss (profit)	<u>60,298</u>	<u>(9,347)</u>	<u>50,951</u>
Remeasurement			
Return on plan assets	-	(121)	(121)
Actuarial loss - changes in demographic assumptions	16,997	-	16,997
Actuarial loss - changes in financial assumptions	(749)	-	(749)
Actuarial loss - experience adjustments	<u>4,003</u>	<u>-</u>	<u>4,003</u>
Recognized in other comprehensive income	<u>20,251</u>	<u>(121)</u>	<u>20,130</u>
Contributions from the employer	-	(249,316)	(249,316)
Benefits paid	(27,699)	27,699	-
Portion of benefits paid by the Corporation	<u>(24,022)</u>	<u>-</u>	<u>(24,022)</u>
Balance at December 31, 2017	<u>\$ 2,083,628</u>	<u>\$ (1,156,703)</u>	<u>\$ 926,925</u>

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

	For the Year Ended December 31	
	2017	2016
Operating costs	\$ 28,690	\$ 42,666
Selling and marketing expenses	1,687	2,714
General and administrative expenses	2,910	3,742
Research and development expenses	<u>16,977</u>	<u>26,356</u>
	<u>\$ 50,264</u>	<u>\$ 75,478</u>

The amount of disbursement of defined benefit plans of associates is \$687 thousand and \$1,393 thousand in 2017 and 2016, respectively.

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

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

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

	December 31	
	2017	2016
Discount rate	1.25%	1.00%
Expected rate of salary increase	1.25%	1.00%

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

	December 31	
	2017	2016
Discount rate		
0.25% increase	<u>\$ (58,613)</u>	<u>\$ (60,852)</u>
0.25% decrease	<u>\$ 60,973</u>	<u>\$ 63,412</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 59,777</u>	<u>\$ 62,183</u>
0.25% decrease	<u>\$ (57,746)</u>	<u>\$ (59,968)</u>

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

	December 31	
	2017	2016
Expected contributions to the plans for the next year	<u>\$ 256,239</u>	<u>\$ 249,209</u>
Average duration of the defined benefit obligation	11.6 years	12.2 years

19. EQUITY

a. Ordinary shares

	December 31	
	2017	2016
Numbers of shares authorized (in thousands)	<u>1,800,000</u>	<u>1,800,000</u>
Amount of shares authorized	<u>\$ 18,000,000</u>	<u>\$ 18,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>1,384,051</u>	<u>1,384,051</u>
Shares issued	<u>\$ 13,840,508</u>	<u>\$ 13,840,508</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and the right to dividends.

b. Capital surplus

	December 31	
	2017	2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note 1)		
Conversion of bonds	\$ 5,183,923	\$ 5,183,923
Issuance of ordinary shares	1,184,920	1,184,920
Others	4,666	4,666
<u>May be used to offset a deficit only</u>		
Changes in percentage of ownership interest in subsidiaries (Note 2)	2,225	2,225
Share of changes in capital surplus of associates	<u>31,606</u>	<u>31,486</u>
	<u>\$ 6,407,340</u>	<u>\$ 6,407,220</u>

Note 1: Such capital surplus may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

Note 2: Such capital surplus arises from the effect of changes in ownership interest in a subsidiaries resulting from equity transactions other than actual disposals or acquisitions, or from changes in capital surplus of subsidiaries accounted for using the equity method.

c. Retained earnings and dividends policy

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

Under the dividends policy as set forth in the amended Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes and offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends bonuses to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to Note 20.

The operating of the Corporation is considered as a mature and steady industry. In determining dividend amounts, the Corporation takes its future capital expenditures and related factors into account and also seeks to uphold the shareholders' interests and realize the Corporation's long-term financial plan. Dividends should be at least 40% of post-tax profit. Nevertheless, dividends would not be distributed if the Corporation has a net deficit. Dividends are in the form of cash or shares. The Corporation's policy is that cash dividends should be at least 20% of total dividends.

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

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reserved from a special reserve by the Corporation.

All shareholders receiving the dividends are not allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation when appropriating the earnings before 1997. Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation when appropriating the earnings after 1998.

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings in June 2017 and 2016 respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2016	For Year 2015	For Year 2016	For Year 2015
Legal reserve	\$ 318,910	\$ 316,610		
Cash dividends	2,214,481	2,076,076	<u>\$ 1.6</u>	<u>\$ 1.5</u>

Information on the appropriation of earning in the shareholders' meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

The appropriation of earnings for 2017 had been proposed by the Corporation's board of directors on March 26, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 410,564	
Cash dividends	2,491,292	<u>\$ 1.8</u>

The appropriation of earnings for 2017 are subject to the resolution in the shareholders meeting to be held in June 2018.

d. Special reserves

	For the Year Ended December 31	
	2017	2016
Beginning at January 1	\$ 1,051,658	\$ 1,051,673
Reversal:		
Disposal of property, plant and equipment	<u>-</u>	<u>(15)</u>
Balance at December 31	<u>\$ 1,051,658</u>	<u>\$ 1,051,658</u>

e. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ (268,058)	\$ 571,137
Share of exchange differences on of subsidiaries, associates and joint ventures accounted for using the equity method	<u>(217,060)</u>	<u>(839,195)</u>
Balance at December 31	<u>\$ (485,118)</u>	<u>\$ (268,058)</u>

2) Unrealized gain on available-for-sale financial assets

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 850,984	\$ 897,338
Unrealized loss arising on revaluation of available-for-sale financial assets	(118,561)	(57,706)
Share of unrealized gain on revaluation of available-for-sale financial assets of subsidiaries and associates accounted for using the equity method	<u>33,033</u>	<u>11,352</u>
Balance at December 31	<u>\$ 765,456</u>	<u>\$ 850,984</u>

3) Total loss on effective portion of cash flow hedges

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ (28,635)	\$ 1,402
Transferred to initial carrying amount of hedged items		
Foreign exchange rate swaps	18,961	(19,326)
Foreign exchange forward contracts	2,813	(16,864)
Related income tax	(3,702)	6,153
Share of cash flow hedging reserve of associates accounted for using the equity method	<u>(1,690)</u>	<u>-</u>
Balance at December 31	<u>\$ (12,253)</u>	<u>\$ (28,635)</u>

20. NET PROFIT

Net profit concludes as follow:

a. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
An analysis of depreciation by function		
Operating costs	\$ 636,736	\$ 574,377
Operating expenses	<u>100,571</u>	<u>98,102</u>
	<u>\$ 737,307</u>	<u>\$ 672,479</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 44,566</u>	<u>\$ 37,676</u>
An analysis of amortization in intangible assets by function		
Research and development expenses	<u>\$ 37,808</u>	<u>\$ 37,808</u>

b. Rental income and operating expenses directly related to investment properties

	For the Year Ended December 31	
	2017	2016
Rental income from investment properties	<u>\$ 41,953</u>	<u>\$ 42,376</u>
Direct operating expenses from investment properties that generated rental income	<u>\$ 21,027</u>	<u>\$ 20,809</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term benefits	\$ 2,414,002	\$ 2,533,883
Post-employment benefits		
Defined contribution plans	44,892	42,716
Defined benefit plans	<u>50,264</u>	<u>75,478</u>
	<u>\$ 2,509,158</u>	<u>\$ 2,652,077</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 1,261,404	\$ 1,346,098
Operating expenses	<u>1,247,754</u>	<u>1,305,979</u>
	<u>\$ 2,509,158</u>	<u>\$ 2,652,077</u>

For the years ended December 31, 2017 and 2016, the Corporation's number of employees was 2,059 and 2,038, respectively.

d. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors at rates of no less than 0.1% and no higher than 0.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors (including supervisors with the term of service ended on June 30, 2016). The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Corporation's board of directors in March 2018 and 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	1.03%	0.52%
Remuneration of directors and supervisors	0.50%	0.50%

Amount

	For the Year Ended December 31	
	2017	2016
	Cash	Cash
Employees' compensation	\$ 45,459	\$ 18,426
Remuneration of directors and supervisors	22,036	17,822

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

21. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of tax expense were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ 272,870	\$ 218,928
Adjustments for prior years	<u>(56,558)</u>	<u>(389)</u>
	<u>216,312</u>	<u>218,539</u>
Deferred tax		
In respect of the current year	23,190	125,393
Adjustments for prior years	<u>(5,502)</u>	<u>(4,932)</u>
	<u>17,688</u>	<u>120,461</u>
Income tax expense recognized in profit or loss	<u>\$ 234,000</u>	<u>\$ 339,000</u>

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

	For the Year Ended December 31	
	2017	2016
Profit before tax	<u>\$ 4,339,643</u>	<u>\$ 3,528,100</u>
Income tax expense calculated at the statutory rate	\$ 737,739	\$ 599,777
Tax-exempt income	(400,580)	(210,549)
Income tax on unappropriated earnings	37,596	59,127
Investment credits	(74,235)	(75,390)
Unrecognized deductible temporary differences	(4,460)	(28,644)
Adjustments for prior years' tax	<u>(62,060)</u>	<u>(5,321)</u>
Income tax expense recognized in profit or loss	<u>\$ 234,000</u>	<u>\$ 339,000</u>

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

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 recognized as at December 31, 2017 are expected to be adjusted and increase by \$55,112 thousand, in 2018.

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

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
<u>Deferred tax</u>		
Remeasurement on defined benefit plans	\$ 3,422	\$ 33,770
Total loss (gain) on effective portion of cash flow hedges	<u>(3,702)</u>	<u>6,153</u>
Total income tax recognized in other comprehensive income	<u>\$ (280)</u>	<u>\$ 39,923</u>

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax assets		
Tax refund receivable (included in other current assets)	<u>\$ 1,287</u>	<u>\$ 6,889</u>
Current tax liabilities		
Income tax payable	<u>\$ 162,209</u>	<u>\$ 129,135</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plans	\$ 171,338	\$ (37,799)	\$ 3,422	\$ 136,961
Other payables	45,699	10,163	-	55,862
Inventories	13,771	9,379	-	23,150
Others	<u>30,673</u>	<u>(5,049)</u>	<u>(3,702)</u>	<u>21,922</u>
	261,481	(23,306)	(280)	237,895
Loss carryforwards	<u>68,903</u>	<u>5,502</u>	<u>-</u>	<u>74,405</u>
	<u>\$ 330,384</u>	<u>\$ (17,804)</u>	<u>\$ (280)</u>	<u>\$ 312,300</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Others	<u>\$ 116</u>	<u>\$ (116)</u>	<u>\$ -</u>	<u>\$ -</u>

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Defined benefit plans	\$ 288,887	\$ (151,319)	\$ 33,770	\$ 171,338
Other payables	40,139	5,560	-	45,699
Inventories	11,391	2,380	-	13,771
Others	<u>11,221</u>	<u>13,586</u>	<u>5,866</u>	<u>30,673</u>
	351,638	(129,793)	39,636	261,481
Loss carryforwards	<u>63,971</u>	<u>4,932</u>	<u>-</u>	<u>68,903</u>
	<u>\$ 415,609</u>	<u>\$ (124,861)</u>	<u>\$ 39,636</u>	<u>\$ 330,384</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Cash flow hedges	\$ 287	\$ -	\$ (287)	\$ -
Others	<u>4,516</u>	<u>(4,400)</u>	<u>-</u>	<u>116</u>
	<u>\$ 4,803</u>	<u>\$ (4,400)</u>	<u>\$ (287)</u>	<u>\$ 116</u>

- e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets

	December 31	
	2017	2016
Deductible temporary differences	<u>\$ 1,267,017</u>	<u>\$ 1,293,252</u>

f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2017 comprised:

Unused Amount	Expiry Year
<u>\$ 437,680</u>	2018

- g. Integrated income tax

	December 31, 2016
Unappropriated earnings	
Generated before January 1, 1998	\$ 4,328,589
Generated on and after January 1, 1998	<u>15,071,006</u>
	<u>\$ 19,399,595</u>
Shareholder-imputed credits account ("ICA")	<u>\$ 2,037,910</u>

The actual creditable ratio for the distribution of the earnings of 2016 was 14.71%. Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

- h. Income tax assessments

The tax returns of the Corporation through 2015 have been assessed by the tax authorities.

22. EARNINGS PER SHARE

	For the Year Ended December 31	
	2017	2016
Basic earnings per share	<u>\$ 3.01</u>	<u>\$ 2.34</u>
Diluted earnings per share	<u>\$ 3.01</u>	<u>\$ 2.34</u>

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2017	2016
Profit for the year of the Corporation	<u>\$ 4,105,643</u>	<u>\$ 3,189,100</u>

Weighted Average Number of Ordinary Shares Outstanding (In Thousand Shares)

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings per share		
Weighted average number of ordinary shares	1,384,051	1,384,051
Adjustment for associates holding shares	<u>(20,599)</u>	<u>(20,599)</u>
	1,363,452	1,363,452
Effect of potentially dilutive ordinary shares		
Compensation to employees	<u>1,373</u>	<u>936</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>1,364,825</u>	<u>1,364,388</u>

When calculating EPS, the Corporation considers the shares which associates hold as the treasury shares to reduce the outstanding shares.

If the Corporation offered to settle compensation paid to employees in cash or shares, the Corporation assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

23. CAPITAL MANAGEMENT

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

24. FINANCIAL INSTRUMENTS

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

The management believes the carrying amounts of financial assets and financial liabilities that are not measured at fair value recognized in the financial statements approximate their fair values or their fair values cannot be reliably measured.

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

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVTPL				
Mutual funds	<u>\$ 510,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 510,417</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Listed securities - ROC	\$ 22,489	\$ -	\$ -	\$ 22,489
Unlisted securities - ROC	<u>-</u>	<u>-</u>	<u>703,983</u>	<u>703,983</u>
	<u>\$ 22,489</u>	<u>\$ -</u>	<u>\$ 703,983</u>	<u>\$ 726,472</u>
<u>Financial liabilities</u>				
Derivative financial assets for hedging				
Derivative financial instruments (included in other current liabilities)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,954</u>	<u>\$ 2,954</u>
Derivative financial liabilities for hedging				
Derivative financial instruments (included in other current liabilities)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,362</u>	<u>\$ 12,362</u> (Concluded)
<u>December 31, 2016</u>				
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVTPL				
Derivative financial instruments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 812</u>	<u>\$ 812</u>
Available-for-sale financial assets				
Listed securities - ROC	\$ 112,132	\$ -	\$ -	\$ 112,132
Unlisted securities - ROC	-	-	732,680	732,680
Mutual funds	<u>573,314</u>	<u>-</u>	<u>-</u>	<u>573,314</u>
	<u>\$ 685,446</u>	<u>\$ -</u>	<u>\$ 732,680</u>	<u>\$ 1,418,126</u>
Derivative financial assets for hedging				
Derivative financial instruments (included in other current assets)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,371</u>	<u>\$ 1,371</u> (Continued)

	Level 1	Level 2	Level 3	Total
<u>Financial liabilities</u>				
Derivative financial liabilities for hedging				
Derivative financial instruments (included in other current liabilities)	\$ -	\$ -	\$ 16,546	\$ 16,546 (Concluded)

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

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2017

Financial Assets	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Available-for-sale Financial Assets	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 812	\$ 732,680	\$ 1,371	\$ 734,863
Recognized in profit or loss	(812)	-	(1,371)	(2,183)
Recognized in other comprehensive income	-	(28,697)	-	(28,697)
Balance at December 31	\$ -	\$ 703,983	\$ -	\$ 703,983

Financial Liabilities	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ -	\$ 16,546	\$ 16,546
Recognized in profit or loss	2,954	(16,546)	(13,592)
Recognized in other comprehensive income	-	12,362	12,362
Balance at December 31	\$ 2,954	\$ 12,362	\$ 15,316

For the year ended December 31, 2016

Financial Assets	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Available-for-sale Financial Assets	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 1,913	\$ 725,538	\$ 1,916	\$ 729,367
Recognized in profit or loss	(1,101)	-	(1,916)	(3,017)
Recognized in other comprehensive income	<u>-</u>	<u>7,142</u>	<u>1,371</u>	<u>8,513</u>
Balance at December 31	<u>\$ 812</u>	<u>\$ 732,680</u>	<u>\$ 1,371</u>	<u>\$ 734,863</u>

Financial Liabilities	Financial Instruments at Fair Value Through Profit or Loss Derivatives	Derivative Financial Instruments for Hedging	Total
Balance at January 1	\$ 299	\$ 227	\$ 526
Recognized in profit or loss	(299)	(227)	(526)
Recognized in other comprehensive income	<u>-</u>	<u>16,546</u>	<u>16,546</u>
Balance at December 31	<u>\$ -</u>	<u>\$ 16,546</u>	<u>\$ 16,546</u>

3) Valuation techniques and inputs applied for Level 3 fair value measurement

- a) Derivative financial instruments: The fair values of warrants are determined using option pricing models where the significant unobservable inputs are historical volatility. An increase in the historical volatility used in isolation would result in an increase in the fair value.
- b) Derivative financial instruments: The fair values of foreign exchange forward contracts of future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
- c) Domestic unlisted equity securities to which the market approach was applied: The fair values of domestic unlisted shares were determined using a value multiplier while referring to share prices of listed companies with operating activities that were similar to those of the Corporation. The material unobservable inputs at the end of the reporting period were as follows:

	December 31, 2017
EBIT ratio	8.96 times
EBITDA ratio	7.23-31.73 times
P/B ratio	1.66-3.11 times
Discount rate for lack of marketability	32.28%

	December 31, 2016
P/E ratio	13.83-21.65 times
P/B ratio	1.72-2.31 times
Discount rate for lack of marketability	20%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair values of the shares would have increased (decreased) as follows:

	December 31, 2017
EBIT ratio	
1 time increase	<u>\$ 63,057</u>
1 time decrease	<u>\$ (63,057)</u>
EBITDA ratio	
1 time increase	<u>\$ 75,149</u>
1 time decrease	<u>\$ (75,149)</u>
P/B ratio	
0.1 time increase	<u>\$ 70,398</u>
0.1 time decrease	<u>\$ (70,398)</u>

	December 31, 2016
P/E ratio	
1 time increase	<u>\$ 55,161</u>
1 time decrease	<u>\$ (55,161)</u>
P/B ratio	
0.1 time increase	<u>\$ 73,268</u>
0.1 time decrease	<u>\$ (73,268)</u>

c. Categories of financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 510,417	\$ 812
Derivative instruments in designated hedge accounting relationships (included in other current assets)	-	1,371
Loans and receivables (Note 1)	15,172,518	14,778,676
Available-for-sale financial assets (Note 2)	738,150	1,478,534
<u>Financial liabilities</u>		
Amortized cost (Note 3)	4,675,960	4,684,521
Fair value through profit or loss (FVTPL) (included in other current liabilities)		
Held for trading	2,954	-
Derivative instruments in designated hedge accounting relationships (included in other current liabilities)	12,362	16,546

Note 1: The balances included cash and cash equivalents, debt investments with no active market, notes receivable, accounts receivable (related parties included), other receivables (related parties included), other financial assets (included in other current assets) and guarantee deposits (included in other non-current assets).

Note 2: The balances included the carrying amounts of available-for-sale financial assets and financial assets measured at cost.

Note 3: The balances included accounts payable (related parties included), other payables and deposits received (included in other non-current liabilities).

d. Financial risk management objectives and policies

The Corporation's major financial instruments include equity and debt investments, accounts receivables and accounts payables. Financial risks include market risk, credit risk, and liquidity risk.

1) Market risk

The Corporation's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and other price factors.

a) Foreign currency risk

Holding foreign currency-denominated assets and liabilities exposes the Corporation to adverse fluctuations of cash flows and the reduction of foreign currency assets due to the foreign currency rate changes. The Corporation avoids cash flow risk resulting from the adverse foreign currency rate changes by using derivative contracts.

Sensitivity analysis

The Corporation is mainly exposed to the U.S. dollar (USD), Japanese yen (JPY) and Renminbi (RMB).

The following table details the Corporation's sensitivity to a 1% increase and decrease in New Taiwan dollars against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and their translation at the end of the reporting period is adjusted for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and equity associated with a 1% strengthening of the New Taiwan dollar strengthening 1% against the relevant currency. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and equity, and the balances below would be negative.

	USD to NTD	
	For the Year Ended December 31	
	2017	2016
Loss	\$ (638)	\$ (2,378)

	JPY to NTD	
	For the Year Ended December 31	
	2017	2016
Gain	\$ 1,492	\$ 334
Equity	\$ (6,534)	\$ (5,980)

	RMB to NTD	
	For the Year Ended December 31	
	2017	2016
Loss	\$ (13,077)	\$ (15,533)

b) Interest rate risk

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

	December 31	
	2017	2016
Cash flows interest rate risk		
Financial assets	\$ 10,546,238	\$ 10,932,311

Sensitivity analysis

The sensitivity analysis below were determined based on the Corporation's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity rate of 0.25% is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.25% higher/lower and all other variables were held constant, the Corporation's pre-tax for the years ended December 31, 2017 and 2016 would increase/decrease by \$26,366 thousand and \$27,331 thousand, respectively.

The Corporation's sensitivity to interest rates decreased during the current year mainly due to the decrease in variable rate asset instruments.

c) Other price risk

The Corporation was exposed to equity price risk on its investments in listed securities and mutual funds.

Sensitivity analysis

The Corporation assesses equity price risk using sensitivity analysis.

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period. If equity prices had been 5% lower, the fair values of available-for-sale investments and held-for-trading investments would have decreased by \$26,645 thousand and \$34,272 thousand as of December 31, 2017 and 2016, respectively.

2) Credit risk

The amounts of financial assets were potentially affected by the Corporation if the counter-parties or third parties breach financial instrument contracts. The affection includes the concentrated degrees, composition parts and contracts amounts of the financial instruments and other receivables. The Group believes the risk is low because the trading parties were creditworthy banks, brokers and dealers.

3) Liquidity risk

The Corporation has sufficient operating capital to meet cash requirements for settling derivative transactions. Thus, liquidity risk is low.

25. TRANSACTIONS WITH RELATED PARTIES

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

a. Names and categories of related parties

Name	Related-party Categories
Mitsubishi Motors Corporation (Mitsubishi Motors Corp.)	Investors that have significant influence over the Corporation
Mitsubishi Corporation (Mitsubishi Corp.)	Investors that have significant influence over the Corporation
Tai Yuen Textile Co., Ltd. (Tai Yuen Textile)	Investors that have significant influence over the Corporation
Le Wen Investment Co., Ltd.	Investors that have significant influence over the Corporation
Yulon Management Company Ltd.	Subsidiary of investor that have significant influence over the Corporation
Mitsubishi Corporation (Taiwan) Ltd.	Subsidiary of investor that have significant influence over the Corporation
Mitsubishi Corporation LT Taiwan Co., Ltd.	Subsidiary of investor that have significant influence over the Corporation
Mitsubishi Motors Philippines Corporation	Subsidiary of investor that have significant influence over the Corporation
Mitsubishi Motors Thailand	Subsidiary of investor that have significant influence over the Corporation
Mitsubishi Corporation Technos	Subsidiary of investor that have significant influence over the Corporation
Shye Shyang Mechanical Industrial Co., Ltd.	The Corporation is its major management authority
Uni-Calsonic Corp.	Associate
Yulon Motor Co., Ltd.	Associate
Fortune Motors Co., Ltd. (Fortune Motors)	Associate

(Continued)

Name	Related-party Categories
ROC Spicer Ltd. (ROC-Spicer)	Associate
Uni Auto Parts Manufacture Co., Ltd.	Associate
Shung Ye Motor Co., Ltd. (Shung Ye Motor)	Associate
Hua-Chuang Automobile Information Technical Center Co., Ltd. (Hua-Chuang Automobile Information Technical Center)	Associate
Yulon IT Solutions Inc.	Associate
Sinjang Co., Ltd.	Associate
Tokio Marine Newa Insurance Co., Ltd.	Associate
South East (Fujian) Motor Corporation Ltd.	Associate
Fujian Benz Automotive Co., Ltd.	Associate
Hong Shuo Cultural Enterprises, Co., Ltd.	Associate
Hsiang Shuo Enterprises	Associate
Sinqual Technology Co., Ltd.	Associate
Taiwan Acceptance Corporation (Taiwan Acceptance)	Associate
Yue Sheng Industrial Co., Ltd.	Associate
Luxgen Motor Co., Ltd.	Associate
Y-Teks Co., Ltd.	Associate
Yulon Energy Service Co., Ltd.	Associate
Yuchia Motor Co., Ltd.	Associate
Yue Ki Industrial Co., Ltd. (Yue Ki)	Associate
Carplus Auto Leasing Corporation	Associate
China Engine (Fujian)	Associate
Hsieh-Shin Motors Co., Ltd.	Associate
Automotive Research & Testing Center	Substantive related party
Yu Rich Financial Services Company	Associate
Visionary International Consulting Co., Ltd.	Associate
Kian Shen Corporation	Subsidiary
COC Tooling & Stamping Co., Ltd. (COC)	Subsidiary
Y. M. Hi-Tech Industry Ltd.	Subsidiary
China Engine Corporation	Subsidiary
Gatetech Technology Inc.	Subsidiary
Gatetech (Suchou) Technology Co., Ltd	Subsidiary
Ling Wei Motor Co., Ltd. (“Ling Wei”)	Subsidiary
Brilliant Insight International Consultancy Service Co., Ltd.	Subsidiary
Greentrans Corporation (“Greentrans”)	Subsidiary
Sino Diamond Motors Corporation (“Sino Diamond Motors”)	Subsidiary
Hwa-Lin Investments Ltd.	Subsidiary
Jiangsu Greentrans Automotive Parts Co., Ltd.	Subsidiary

(Concluded)

b. Operating transactions

1) Sales of goods

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Sales	Associates		
	Fortune Motors	\$ 18,086,455	\$ 17,155,604
	Shung Ye Motor	4,615,090	4,086,080
	Others	<u>60,608</u>	<u>94,935</u>
		22,762,153	21,336,619
	Investors and subsidiaries of the investors that have significant influence over the Corporation		
	Others	823,737	920,248
	Subsidiaries		
	Others	456,555	405,624
	The Corporation is its major management authority		
	Others	<u>1,320</u>	<u>-</u>
		<u>\$ 24,043,765</u>	<u>\$ 22,662,491</u>

2) Purchases of goods

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Purchases	Investors and subsidiaries of the investors that have significant influence over the Corporation		
	Mitsubishi Corp.	\$ 1,917,681	\$ 2,068,724
	Others	<u>100,726</u>	<u>285</u>
		2,018,407	2,069,009
	Associates		
	Others	1,715,909	1,678,267
	Subsidiaries		
	Others	1,114,071	1,102,864
	The Corporation is its major management authority		
	Others	<u>373,810</u>	<u>371,197</u>
		<u>\$ 5,222,197</u>	<u>\$ 5,221,337</u>

3) Technical services expenses

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Cost of goods sold and selling and marketing expenses	Investors that have significant influence over the Corporation		
	Others	<u>\$ 206,895</u>	<u>\$ 218,712</u>

4) Development expenses

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Research and development expenses	Investors that have significant influence over the Corporation		
	Others	\$ 51,750	\$ 105,778
	Subsidiaries		
	Others	45	12
	Associates		
	Others	32	-
	Substantive related parties		
	Others	<u>22</u>	<u>-</u>
		<u>\$ 51,849</u>	<u>\$ 105,790</u>

5) Acquisitions of property, plant and equipment

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Property, plant and equipment	Associates		
	Others	\$ 25,223	\$ 11,345
	Subsidiaries		
	Others	12,529	11,262
	The Corporation is its major management authority		
	Others	<u>4,500</u>	<u>6,290</u>
		<u>\$ 42,252</u>	<u>\$ 28,897</u>

6) Disposals of property, plant and equipment

Related Party Categories/Name	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
Subsidiaries				
Ling Wei	\$ 24,034	\$ 3,023	\$ 1,429	\$ 220
Others	<u>576</u>	<u>15</u>	<u>-</u>	<u>15</u>
	24,610	3,038	1,429	235
Substantive related parties				
Others	1,104	-	15	-
Associates				
Others	<u>-</u>	<u>762</u>	<u>-</u>	<u>(35)</u>
	<u>\$ 25,714</u>	<u>\$ 3,800</u>	<u>\$ 1,444</u>	<u>\$ 200</u>

7) Receivables from related parties

Line Items	Related Party Categories/Name	December 31	
		2017	2016
Trade receivables from related parties	Associates		
	Fortune Motors	\$ 866,928	\$ 648,480
	Shung Ye Motor	222,722	216,983
	Others	<u>7,184</u>	<u>10,279</u>
		1,096,834	875,742
	Subsidiaries		
	Others	134,648	127,231
	Investors and subsidiaries of the investors that have significant influence over the Corporation		
	Others	<u>15,822</u>	<u>81,241</u>
		<u>\$ 1,247,304</u>	<u>\$ 1,084,214</u>

8) Loans to related parties

Line Items	Related Party Categories/Name	December 31	
		2017	2016
Other receivables	Subsidiaries		
	Sino Diamond Motors	<u>\$ 500,046</u>	<u>\$ -</u>

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Interest revenue	Subsidiaries		
	Sino Diamond Motors	<u>\$ 46</u>	<u>\$ -</u>

The Corporation provided financing to Sino Diamond Motors, its subsidiary, at rates comparable to market interest rates. For the year ended December 31, 2017, the financing to its subsidiary was unsecured loans.

9) Prepayments

Line Items	Related Party Categories/Name	December 31	
		2017	2016
Prepayments	Investors and subsidiaries of the investors that have significant influence over the Corporation		
	Others	\$ 42,637	\$ 11,295
	Subsidiaries		
	Others	4,893	6,119
	Associates		
	Others	<u>147</u>	<u>-</u>
		<u>\$ 47,677</u>	<u>\$ 17,414</u>

10) Payables to related parties

Line Items	Related Party Categories/Name	December 31	
		2017	2016
Trade payables to related parties	Associates		
	ROC-Spicer	\$ 93,334	\$ 93,504
	Others	<u>312,619</u>	<u>295,671</u>
		405,953	389,175
	Investors and subsidiaries of the investors that have significant influence over the Corporation		
	Mitsubishi Motors Corp.	114,418	119,661
	Others	<u>55,172</u>	<u>36,108</u>
		169,590	155,769
	Subsidiaries		
	Others	127,541	144,865
	The Corporation is its major management authority		
	Others	63,502	69,413
	Substantive related parties		
	Others	<u>11,006</u>	<u>16,733</u>
		<u>\$ 777,592</u>	<u>\$ 775,955</u>

11) Deposits in advance

Line Items	Related Party Categories/Name	December 31	
		2017	2016
Other current liabilities	Subsidiaries		
	Greentrans	\$ 4,564	\$ 9,734
	COC	-	21,870
	Others	<u>1,236</u>	<u>2,576</u>
		5,800	34,180
	Investors that have significant influence over the Corporation		
	Mitsubishi Motors Corp.	-	24,610
	Associates		
	Others	<u>2,167</u>	<u>6,737</u>
		<u>\$ 7,967</u>	<u>\$ 65,527</u>

12) Acquisitions of financial assets

For the year ended December 31, 2017

Related Party Categories/Name	Line Items	Underlying Assets	Purchase Price
Associates			
Taiwan Acceptance	Debt investments with no active market - non-current	3-year unsecured corporate bond	<u>\$ 250,059</u>

13) Other transactions with related parties

In November 2017, the Corporation paid \$400 thousand to acquire 56 thousand shares in Hua-Chuang Automobile Information Technical Center from Tai-Yuen Textile.

The outstanding payables to related parties had unsecured guarantees and would be paid in cash. The Corporation receives guarantees of the receivables from part of the related parties. In addition, the Corporation did not recognize allowance for doubtful accounts for 2017 and 2016.

Except for the accounts receivable from Y. M. Hi-Tech Industry Ltd., other transactions with related parties have the same terms for pricing, receipts and payments as of those for third parties. Lease contracts with related parties are based on market conditions, and the terms of payment or receivables were the same as those for third parties.

The Corporation signed contract with Mitsubishi Motor Corp. (MMC). Refer to Note 27.

c. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 97,815	\$ 110,358
Post-employment benefits	<u>619</u>	<u>1,145</u>
	<u>\$ 98,434</u>	<u>\$ 111,503</u>

The remuneration of directors, supervisors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

26. ASSETS PLEDGED AS COLLATERAL

The following assets were provided as the tariff of importing vehicle parts and materials and escrows:

	December 31	
	2017	2016
Pledged deposits (included in other current assets)	<u>\$ 82,261</u>	<u>\$ 81,821</u>

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Corporation as of December 31, 2017 were as follows:

- Guarantee notes amounted to \$4,432,300 thousand, which had been issued to financial institutions as collateral for loans.

b. The Corporation entered into an agreement with MMC as stated below:

Project	Content	Date of Agreement/ Expiry Date	Agreement Price	Payment
Technical royalty	Technical cooperation and manufacture of Delica and other car models	2006.3.1-2025.4.8	Royalty was agreed to be the basis of the FOB price of automobiles sold and manufactured parts repaired	Paid every 6 months within 90 days
Technical royalty	Technical cooperation and manufacture of Outlander and other car models	2005.7.1-2025.9.7	Royalty was agreed to be the fixed amount of automobiles sold per unit and the basis of the FOB price of manufactured parts repaired	Paid every 6 months within 90 days

c. The status of endorsements/guarantees is listed in Table 2.

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Corporation's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
RMB	\$ 290,767	4.5650	\$ 1,327,349
USD	4,521	29.7600	134,543
JPY	503,925	0.2642	133,137
Non-monetary items			
Joint venture accounted for using equity method			
EUR	49,523	35.5700	1,761,531

Financial liabilities

Monetary items			
JPY	597,701	0.2642	157,913

December 31, 2016

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
RMB	\$ 349,225	4.6170	\$ 1,612,371
USD	8,868	32.2500	285,996
JPY	1,271,006	0.2756	350,289

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Non-monetary items			
Joint venture accounted for using equity method			
EUR	\$ 38,213	33.9000	\$ 1,295,405
<u>Financial liabilities</u>			
Monetary items			
JPY	539,090	0.2756	148,573 (Concluded)

For the years ended December 31, 2017 and 2016, net foreign exchange losses (realized and unrealized) were \$48,462 thousand and \$158,377 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions.

29. SEPARATELY DISCLOSED ITEMS

Excluding items disclosed in Notes 7, 9, 24 and Tables 1 to 7, there are no other separately disclosed items.

TABLE 1

CHINA MOTOR CORPORATION

FINANCING PROVIDED TO OTHERS
 FOR THE YEAR ENDED DECEMBER 31, 2017
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount (Note 1)	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 3)
													Item	Value		
0	China Motor Corporation	Sino Diamond Motors	Other receivables	Yes	\$ 500,000	\$ 500,000	\$ 500,000	1.1	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 1,528,501	\$ 10,190,004
1	Hwa-Lin	Sichuan Huafeng Hanwei	Other receivables	Yes	67,667 (US\$ 1,200 thousand) and (RMB 7,000 thousand)	67,667 (US\$ 1,200 thousand) and (RMB 7,000 thousand)	35,712 (US\$ 1,200 thousand)	2	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	90,285 (US\$ 1,960 thousand) and (RMB 7,000 thousand)	90,285 (US\$ 1,960 thousand) and (RMB 7,000 thousand)	58,330 (US\$ 1,960 thousand)	2	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	136,829 (US\$ (3,570 thousand) and (RMB 6,700 thousand)	106,243 (US\$ 3,570 thousand)	104,606 (US\$ 3,515 thousand)	2	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Sales	Other receivables	Yes	26,021 (RMB 5,700 thousand)	-	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	50,215 (RMB 11,000 thousand)	31,955 (RMB 7,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
2	Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales	Other receivables	Yes	456,500 (RMB 100,000 thousand)	456,500 (RMB 100,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Tianjin Hwahong	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Sichuan Huafeng Hanwei	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004

(Continued)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount (Note 1)	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 3)
													Item	Value		
3	Sichuan Huafeng Hanwei	Sichuan Lingwei	Other receivables	Yes	\$ 45,650 (RMB 10,000 thousand)	\$ 45,650 (RMB 10,000 thousand)	\$ 9,587 (RMB 2,100 thousand)	5.4	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 1,528,501	\$ 10,190,004
		Sichuan Hauwei	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	1,100 (RMB 241 thousand)	5.4	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Tianjin Hwahong	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
4	Tianjin Hwarui	Tianjin Hwahong	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
5	Tianjin Hwahong	Tianjin Hwarui	Other receivables	Yes	228,250 (RMB 50,000 thousand)	228,250 (RMB 50,000 thousand)	82,627 (RMB 18,100 thousand)	5.4	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Sichuan Huafeng Hanwei	Other receivables	Yes	91,300 (RMB 20,000 thousand)	91,300 (RMB 20,000 thousand)	22,825 (RMB 5,000 thousand)	2.9	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	68,475 (RMB 15,000 thousand)	68,475 (RMB 15,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	68,475 (RMB 15,000 thousand)	68,475 (RMB 15,000 thousand)	22,825 (RMB 5,000 thousand)	2.9	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
6	Dongguan Huayi	Dongguan Huashun	Other receivables	Yes	228,250 (RMB 50,000 thousand)	228,250 (RMB 50,000 thousand)	107,278 (RMB 23,500 thousand)	5.04	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004

(Continued)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount (Note 1)	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 3)
													Item	Value		
7	Dongguan Huashun	Dongguan Huayi	Other receivables	Yes	\$ 45,650 (RMB 10,000 thousand)	\$ 45,650 (RMB 10,000 thousand)	\$ -	-	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 1,528,501	\$ 10,190,004
		Sichuan Huafeng Hanwei	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Tianjin Hwahong	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
8	GH	Gatech Suzhou	Other receivables	Yes	44,640 (US\$ 1,500 thousand)	44,640 (US\$ 1,500 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004

Note 1: At exchange rate on December 31, 2017, US\$1=NT\$29.76, RMB1=NT\$4.565.

Note 2: The amount is 3% of the total shareholders’ equity of the latest financial statement of China Motor Corporation.

Note 3: The amount is 20% of the total shareholders’ equity of the latest financial statement of China Motor Corporation.

(Concluded)

TABLE 2

CHINA MOTOR CORPORATION

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee Receiver		Limit on Endorsement/ Guarantee Given on Behalf of Each Party	Maximum Amount Endorsed/ Guaranteed During the Year (Note)	Outstanding Endorsement/ Guarantee at the End of the Year (Note)	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiary	Endorsement/ Guarantee Given by Subsidiary on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Company in Mainland China
		Name	Relationship										
1	Sino Diamond Motors	Guangzhou Huayou Motor Maintenance	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	\$ 892,800 (US\$ 30,000 thousand)	\$ 228,250 (RMB 50,000 thousand)	\$ -	\$ -	0.45	50% of the Corporation's issued capital, \$6,920,254 thousand	No	No	Yes
		Tianjin Hwarui	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	892,800 (US\$ 30,000 thousand)	228,250 (RMB 50,000 thousand)	-	-	0.45	50% of the Corporation's issued capital, \$6,920,254 thousand	No	No	Yes
		Sichuan Huafeng Hanwei	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	892,800 (US\$ 30,000 thousand)	228,250 (RMB 50,000 thousand)	-	-	0.45	50% of the Corporation's issued capital, \$6,920,254 thousand	No	No	Yes
		Dongguan Huayi	Subsidiary	20% of the Corporation's issued capital, \$2,768,102 thousand	892,800 (US\$ 30,000 thousand)	228,250 (RMB 50,000 thousand)	-	-	0.45	50% of the Corporation's issued capital, \$6,920,254 thousand	No	No	Yes

Note: At exchange rate on December 31, 2017, US\$1=NT\$29.76, RMB1=NT\$4.565.

TABLE 3

CHINA MOTOR CORPORATION

MARKETABLE SECURITIES HELD

DECEMBER 31, 2017

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

Holding Company Name	Type and Name/Issuer of Marketable Security	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Number of Shares (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
China Motor Corporation	<u>Beneficiary certificates</u>							
	Fidelity (Taiwan) Asian Total Return Bond Fund (I-ACC-TWD)	-	Financial assets at fair value through profit or loss	6,001	\$ 60,403	-	\$ 60,403	
	Allianz Global Investors All Seasons Harvest Fund of Bond Funds	-	Financial assets at fair value through profit or loss	4,785	59,930	-	59,930	
	Franklin Templeton SinoAm Money Market	-	Financial assets at fair value through profit or loss	4,867	50,003	-	50,003	
	Fubon Chi Hsiang Money Market Fund	-	Financial assets at fair value through profit or loss	3,205	50,002	-	50,002	
	The RSIT Enhanced Money Market	-	Financial assets at fair value through profit or loss	4,201	50,002	-	50,002	
	Nomura Asia Pacific High Yield Bond Fund	-	Financial assets at fair value through profit or loss	2,186	30,055	-	30,055	
	Nomura Global Short Duration Bond Fund Accumulate	-	Financial assets at fair value through profit or loss	2,844	30,050	-	30,050	
	CTBC Hua Win Money Market Fund	-	Financial assets at fair value through profit or loss	2,738	30,002	-	30,002	
	Sinopac Money Market Fund	-	Financial assets at fair value through profit or loss	2,167	30,002	-	30,002	
	Hua Nan Phoenix Money Market Fund	-	Financial assets at fair value through profit or loss	1,856	30,001	-	30,001	
	UPAMC James Bond Money Market Fund	-	Financial assets at fair value through profit or loss	1,806	30,001	-	30,001	
	Cathay Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss	2,423	30,001	-	30,001	
	PineBridge Global Multi-Strategy High Yield Bond Fund	-	Financial assets at fair value through profit or loss	2,192	29,965	-	29,965	
	<u>Shares</u>							
	Shye Shyang Machinery Industrial	Corporate director	Available-for-sale financial assets - non-current	9,009	703,983	10.00	703,983	
	Myson Century, Inc.	Corporate director	Available-for-sale financial assets - non-current	4,705	21,594	7.84	21,594	
	Carnival	-	Available-for-sale financial assets - non-current	190	895	0.05	895	
	<u>Shares</u>							
	Taiwan Aerospace	-	Financial assets measured at cost	811	8,107	0.60	-	
	Com2B (Cayman) Corp.	-	Financial assets measured at cost	2,000	3,471	4.44	-	
	Yueki Industrial Co., Ltd.	-	Financial assets measured at cost	16	100	0.08	-	
	NORM Pacific Automation Corp.	-	Financial assets measured at cost	128	-	0.45	-	
	<u>Corporate bonds</u>							
	Taiwan Acceptance Corp.	Associate	Debt investments with no active market - non-current	-	250,046	-	250,046	
	Société Générale	-	Debt investments with no active market - non-current	-	205,944	-	205,944	
	Gatetech Technology	Subsidiary	Debt investments with no active market - non-current	-	150,000	-	150,000	
	Value Success International	-	Debt investments with no active market - non-current	-	137,294	-	137,294	
	Morgan Stanley	-	Debt investments with no active market - non-current	-	137,094	-	137,094	
	Deutsche Bank Aktiengesellschaft, Singapore Branch	-	Debt investments with no active market - non-current	-	136,950	-	136,950	

(Continued)

Holding Company Name	Type and Name/Issuer of Marketable Security	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Number of Shares (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
Alliance Investment & Management	Crédit Agricole Corporate and Investment Bank SA	-	Debt investments with no active market - non-current	-	\$ 91,300	-	\$ 91,300	
	Fonterra Co-operative Group Ltd.	-	Debt investments with no active market - non-current	-	45,792	-	45,792	
	Sinostrong International Ltd.	-	Debt investments with no active market - non-current	-	13,716	-	13,716	
	<u>Negotiable certificates of deposit</u> O-Bank	-	Debt investments with no active market - current	-	700,000	-	700,000	
	<u>Principle guaranteed notes</u> President Securities 100% Principle Guaranteed Note	-	Debt investments with no active market - non-current	-	506,715	-	506,715	
	<u>Shares</u> Samuel (Cayman) Co., Ltd.	-	Financial assets measured at cost	6,327	92,132	15.07	-	
	T-Car Inc.	-	Financial assets measured at cost	1,275	35,599	4.05	-	
	Carplus Auto Leasing Corporation	-	Financial assets measured at cost	2,590	21,531	3.45	-	
	United Oriental Glass Ind. Co., Ltd.	The investor is the member of the Board of Directors.	Financial assets measured at cost	648	12,337	1.62	-	
	Phalanx Biotech Group	-	Financial assets measured at cost	696	2,089	1.32	-	
	Solidlite Corporation	-	Financial assets measured at cost	789	2,367	3.60	-	
	Site information service	-	Financial assets measured at cost	65	968	0.54	-	
	Jouge Technology Co., Ltd.	-	Financial assets measured at cost	123	627	0.76	-	
	<u>Preference shares</u> Rock Financial Risk Service Co., Ltd.	-	Debt investments with no active market - non-current	-	9,900	-	9,900	
	<u>Beneficiary certificates</u> CTBC Hwa win Money Market Fund	-	Financial assets at fair value through profit or loss	1,646	18,033	-	18,033	
	<u>Principle guaranteed notes</u> President Securities 100% Principle Guaranteed Note	-	Debt investments with no active market - current	-	44,052	-	44,052	
	<u>Beneficiary certificates</u> Taishin Ta-Chong Money Market	-	Financial assets at fair value through profit or loss	74	1,046	-	1,046	

Note: See Tables 6 and 7 for the information of investments in subsidiaries and associates.

(Concluded)

TABLE 4

CHINA MOTOR CORPORATION

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)**

Seller/Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% to Total (Note)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total (Note)	
China Motor Corporation	Fortune Motors	Equity-method investee	Sale	\$ (18,086,455)	(60)	Collect after 16-60 days of delivery	\$ -	-	\$ 866,928	52	
	Shung Ye Motor	Equity-method investee	Sale	(4,615,090)	(15)	Collect after 16-60 days of delivery	-	-	222,722	13	
	Mitsubishi Motor Corp.	Director of CMC	Sale	(799,013)	(3)	Collect after 20-80 days of delivery	-	-	10,850	1	
	Y. M. Hi-Tech	Subsidiary	Sale	(108,656)	-	Collect after 90 days of the month of delivery	-	-	40,672	2	
	Mitsubishi Corp.	Director of CMC	Purchase	1,917,681	10	Pay after 7 days of cargo ship out	-	-	(43,813)	(2)	
	Uni Auto Parts Manufacture	Equity-method investee	Purchase	686,112	4	Pay after 15 days of the month of delivery	-	-	(68,224)	(3)	
	Kian Shen	Subsidiary	Purchase	613,600	3	Pay after 15 days of the month of delivery	-	-	(49,580)	(2)	
	ROC-Spicer	Equity-method investee	Purchase	502,090	3	Pay after 45 days of the month of delivery	-	-	(93,334)	(3)	
	COC	Subsidiary	Purchase	380,925	2	Pay after 45 days of the month of delivery	-	-	(61,323)	(2)	
	Shye Shyang Machinery Industrial	Director of Shye Shyang Machinery Industrial	Purchase	373,810	2	Pay after 45 days of the month of delivery	-	-	(63,502)	(2)	
	Yueki	Equity-method investee's subsidiary	Purchase	157,835	1	Pay after 45 days of the month of delivery	-	-	(30,260)	(1)	
	Uni-Calsonic	Equity-method investee	Purchase	148,023	1	Pay after 45 days of the month of delivery	-	-	(26,192)	(1)	
Sino Diamond Motors	Fortune Motors	Equity-method investee	Sale	(713,774)	(50)	Collect after 16-45 days of delivery	-	-	77,071	69	
	Shung Ye Motor	Equity-method investee	Sale	(504,243)	(35)	Collect after 7-45 days of delivery	-	-	14,267	13	
Kiah Shen	China Motor Corporation	Parent company	Sale	(613,600)	(52)	Collect after 15 days of the month of delivery	-	-	49,580	30	
	Yueki	Equity-method investee's subsidiary	Purchase	147,021	15	Pay after 45 days of the month of delivery	-	-	(53,561)	(21)	

(Continued)

Seller/Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% to Total (Note)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total (Note)	
COC	China Motor Corporation	Parent company	Sale	\$ (380,925)	(24)	Collect after 45 days of the month of delivery	\$ -	-	\$ 61,323	14	
	Yulon	Equity-method investee	Sale	(354,278)	(23)	Collect after 45 days of the month of delivery	-	-	93,846	21	
	Luxgen	Equity-method investee's subsidiary	Sale	(141,873)	(9)	Collect after 45 days of the month of delivery	-	-	1,931	-	
	Yulon	Equity-method investee	Purchase	133,772	20	Net 60 days from the end of the month of when invoice is issued	-	-	(6,954)	(3)	
	Y. M. Hi-Tech	Subsidiary	Purchase	108,033	16	Net 50 days from the end of the month of when invoice is issued	-	-	(16,247)	(7)	
Y. M. Hi-Tech	Yulon	Equity-method investee	Sale	(139,347)	(42)	Collect after 45 days of the month of delivery	-	-	24,365	48	
	COC	Parent company	Sale	(108,033)	(33)	Net 50 days from the end of the month of when invoice is issued	-	-	16,247	32	
	Yulon	Equity-method investee	Purchase	141,110	45	Net 75 days from the end of the month of when invoice is issued	-	-	(63,124)	(45)	
	China Motor Corporation	Parent company	Sale	108,656	34	Pay after 90 days of the month of delivery	-	-	(40,672)	(29)	
China Engine	Hua-Chuang Automobile Information Technical Center	Equity-method investee	Sale	(572,881)	(70)	Net 90 days from the end of the month of when invoice is issued	-	-	187,485	78	
	Yulon	Equity-method investee	Sale	(159,902)	(20)	Collect after 45 days of the month of delivery	-	-	43,868	18	
Sichuan Hwafeng Hanwei	South Eastern (Fujian) Motor	Equity-method investee	Purchase	851,720	100	Cash before delivery	-	-	-	-	
Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales	Subsidiary	Sale	(474,679)	(85)	Collect after 45 days of the month of delivery	-	-	77,724	78	
	South Eastern (Fujian) Motor	Equity-method investee	Purchase	544,997	98	Cash before delivery	-	-	(222)	(1)	
Guangzhou Huayou Motor Sales	Guangzhou Huayou Motor Maintenance	Parent company	Purchase	474,679	93	Pay after 45 days of the month of delivery	-	-	(77,724)	(97)	
Tianjin Huahong	South Eastern (Fujian) Motor	Equity-method investee	Purchase	694,186	100	Cash before delivery	-	-	(436)	(1)	
Donggun Huashun	South Eastern (Fujian) Motor	Equity-method investee	Purchase	1,326,721	97	Cash before delivery	-	-	(1,033)	(1)	

Note: The proportion of the individual company's total purchase (sale) or total receivable (payable).

(Concluded)

TABLE 5

CHINA MOTOR CORPORATION

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
China Motor Corporation	Fortune Motors	Equity-method investee	\$ 866,928	23.87	\$ -	-	\$ 866,928	\$ -
	Shung Ye Motor	Equity-method investee	222,722	20.99	-	-	222,722	-
China Engine	Hua-Chuang Automobile Information Technical Center	Equity-method investee	187,485	2.27	-	-	62,221	-

TABLE 6

CHINA MOTOR CORPORATION

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		As of December 31, 2017			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2017	December 31, 2016	Number of Shares (In Thousands)	%	Carrying Amount			
China Motor Corporation	Yulon	Miaoli, Taiwan	Manufacture and sale of vehicles	\$ 3,835,585	\$ 3,835,585	262,228	16.80	\$ 11,280,053	\$ 2,288,306	\$ 303,878	Equity-method investee
	Kian Shen	Taoyuan, Taiwan	The production of frame of heavy duty car and mold	344,800	344,800	32,201	43.87	1,949,604	540,584	237,087	Subsidiary
	Fortune Motors	Taipei, Taiwan	Sales and providing after sales service of vehicle	2,132,826	2,132,826	132,117	41.93	4,046,404	1,155,059	484,318	Equity-method investee
	Sino Diamond Motors	Taipei, Taiwan	Sales and providing after sales service of vehicle	3,463,724	3,463,724	325,786	100.00	2,847,155	100,560	100,560	Subsidiary
	Tokio Marine Newa Insurance	Taipei, Taiwan	Property insurance	955,941	955,941	61,511	20.57	1,752,248	888,695	182,810	Equity-method investee
	Alliance Investment & Management	Taipei, Taiwan	Investment	1,200,030	1,200,030	183,000	100.00	1,606,144	(33,201)	(33,201)	Subsidiary
	Daimler Vans Hong Kong Ltd.	Hong Kong	Investment	2,011,363	2,011,363	46,566	32.45	1,761,531	1,475,319	478,741	Equity-method investee
	ROC-Spicer	Taoyuan, Taiwan	Manufacture and sales of automobile parts	803,633	803,633	1,422	29.00	1,120,181	248,675	71,864	Equity-method investee
	CMI	Samoa	Investment	1,402	1,402	40	100.00	1,176,885	94,478	94,478	Subsidiary
	COC	Taoyuan, Taiwan	The production of mold, fixture and gauge of vehicle	412,125	412,125	33,565	49.76	769,612	181,245	90,191	Subsidiary
	Hwa Wei	British Virgin Islands	Overseas investment on production and service industries	1,202	1,202	40	40.00	783,225	157,684	63,074	Subsidiary
	Hua-Chuang Automobile Information Technical Center	Taipei, Taiwan	Product design	1,028,013	988,020	100,000	20.00	602,180	(931,643)	(177,902)	Equity-method investee
	Uni Auto Parts Manufacture	Miaoli, Taiwan	The production of mold, fixture and gauge of vehicle	109,813	109,813	13,032	15.00	376,802	200,714	30,098	Equity-method investee
	Shung Ye Motor	Taipei, Taiwan	Sales and providing after sales service of vehicle	391,142	391,142	27,349	39.98	326,206	41,696	16,670	Equity-method investee
	Gatetech Technology	Taoyuan, Taiwan	Aluminum-magnesium alloy casting industry	474,941	474,941	24,725	56.53	283,222	129,025	72,890	Subsidiary
	China Engine	Taoyuan, Taiwan	Manufacture of automobile engine and parts	320,000	320,000	32,000	18.95	153,364	5,676	6,106	Subsidiary
	Tai Yuen Venture Capital Investment	Taipei, Taiwan	Venture capital, providing plan consulting and operations administration	-	237,897	-	-	-	25,522	12,633	Equity-method investee (liquidated)
	Sin Gan	Taipei, Taiwan	Wholesale, repair and other service of vehicles	71,316	71,316	7,074	24.67	106,356	108,707	26,877	Equity-method investee
	Uni-Calsonic	Miaoli, Taiwan	Manufacture and sales of automobile parts	70,628	-	4,524	23.20	101,754	28,777	6,407	Equity-method investee
	Sin Jiang Enterprises	Taipei, Taiwan	Retail and wholesale of second-hand vehicle	85,893	85,893	8,568	20.01	97,050	30,694	6,141	Equity-method investee
	Hwa Chung Motors	Taoyuan, Taiwan	Manufacture and sales of vehicles	328,900	328,900	8,790	100.00	66,224	1,183	1,183	Subsidiary
	Yulon IT Solutions	Taipei, Taiwan	Information software wholesale services	83,320	83,320	8,332	43.85	21,431	(891)	(391)	Equity-method investee
	Hwa Hann	Philippines	Buy and sell of automobile parts	-	-	521	48.99	-	-	-	Subsidiary (under liquidation)
Kian Shen	Kian Shen Investment	British Virgin Islands	Overseas investment on production and service industries	328,888	328,888	10,296	100.00	3,389,386	648,190	-	Subsidiary
Kian Shen Investment	KSIHK	Hong Kong	Investment	US\$ 25,907 thousand	US\$ 25,907 thousand	25,907	100.00	RMB 737,297 thousand	RMB 130,651 thousand	-	Subsidiary
Alliance Investment & Management	Hua-Chuang Automobile Information Technical Center	Taipei, Taiwan	Product design	473,760	473,760	47,200	9.44	360,473	(931,643)	-	Equity-method investee
	Greentrans Investment	Samoa	Investment	344,369	344,369	11,200	100.00	295,079	(22,428)	-	Subsidiary
	Gatetech Technology	Taoyuan, Taiwan	Aluminum-magnesium alloy casting industry	145,123	145,123	3,172	7.26	36,386	129,025	-	Subsidiary
Sino Diamond Motors	Hua-Yu	Samoa	Overseas investment on production and service industries	1,758,773	1,758,773	45,643	100.00	1,074,938	134,600	-	Subsidiary
	Hua-Chuang Automobile Information Technical Center	Taipei, Taiwan	Product design	473,760	473,760	47,200	9.44	360,473	(931,643)	-	Equity-method investee
	China Engine	Taoyuan, Taiwan	Manufacture of automobile engine and parts	616,000	616,000	56,000	33.16	334,677	5,676	-	Subsidiary
	Gatetech Technology	Taoyuan, Taiwan	Aluminum-magnesium alloy casting industry	149,369	149,369	3,946	9.02	45,250	129,025	-	Subsidiary
	Brilliant Insight International	Taoyuan, Taiwan	Consulting and service	22,000	22,000	2,200	100.00	21,505	2,772	-	Subsidiary
	Hwa Hann	Philippines	Buy and sell of automobile parts	-	-	542	51.00	-	-	-	Subsidiary (under liquidation)
	Shung Ye Motors	Taipei, Taiwan	Sales and providing after sales service of vehicle	180	180	11	0.02	182	41,696	-	Equity-method investee
	Fortune Motors	Taipei, Taiwan	Sales and providing after sales service of vehicle	24	24	1	-	15	1,155,059	-	Equity-method investee

(Continued)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		As of December 31, 2017			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2017	December 31, 2016	Number of Shares (In Thousands)	%	Carrying Amount			
Hua-Yu	Hwa-Lin	British Virgin Islands	Overseas investment on production and service industries	US\$ 45,929 thousand	US\$ 45,929 thousand	42,093	100.00	\$ 979,710	\$ 134,592	\$ -	Subsidiary
Gatetech Technology	GH	Samoa	Investment	647,041	647,041	20,130	100.00	596,600	20,039	-	Subsidiary
GH	GI	Samoa	Investment	US\$ 20,268 thousand	US\$ 20,268 thousand	20,268	100.00	596,575	20,042	-	Subsidiary
China Engine	Advance Power Investment Advance Power Machinery	Mauritius Miaoli, Taiwan	Reinvestment and sales	59,456	59,456	3,750	100.00	96,001	(3,061)	-	Subsidiary
			Manufacture of vehicle and parts	5,000	5,000	500	100.00	11,910	4,738	-	Subsidiary
CMI	Hwa Wei holdings	British Virgin Island	Overseas investment on production and service industries	1,428,503	1,428,503	60	60.00	1,174,838	157,684	-	Subsidiary
Hwa Chung Motors	Ling Wei Greentrans	Taipei, Taiwan	Sales of second-hand vehicle	31,000	31,000	3,608	100.00	28,065	209	-	Subsidiary
		Taipei, Taiwan	Sales of motorcycle and parts	10,000	10,000	1,000	100.00	11,088	835	-	Subsidiary
COC	Y. M. Hi-Tech Shye Shinn	Taoyuan, Taiwan	Steel cutting	46,250	46,250	4,250	85.00	62,364	7,466	-	Subsidiary
		British Virgin Islands	Investment	US\$ 968 thousand	US\$ 968 thousand	968	100.00	38,187	(1,546)	-	Subsidiary

(Concluded)

TABLE 7

CHINA MOTOR CORPORATION

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investee Company	Main Businesses and Products	Paid-in Capital (Note 1)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017 (Note 1)	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017 (Note 1)	Net Income (Loss) of the Investee (Notes 2 and 3)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 2 and 3)	Carrying Amount as of December 31, 2017 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2017 (Note 1)
					Outflow	Inflow						
South Eastern (Fujian) Motor	Manufacture and sales of industrial automation products	\$ 4,106,880 (US\$ 138,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	\$ 1,026,720 (US\$ 34,500 thousand)	\$ -	\$ -	\$ 1,026,720 (US\$ 34,500 thousand)	\$ 545,436	25.00	\$ 136,359	\$ 1,782,376	\$ 774,444 (US\$ 26,023 thousand)
China Engine (Fujian)	Manufacture and sales of engines and engine parts	446,400 (US\$ 15,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	223,200 (US\$ 7,500 thousand)	-	-	223,200 (US\$ 7,500 thousand)	(12,244)	38.03	(6,122)	191,976	-
Fujian Benz Automotive	Sales of industrial automation products	10,208,590 (EUR 287,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	1,656,353 (EUR 46,566 thousand)	-	-	1,656,353 (EUR 46,566 thousand)	2,952,760 (EUR 85,961 thousand)	16.23	479,079 (EUR 13,947 thousand)	1,761,533 (EUR 49,523 thousand)	-
Guangzhou NTN-YULON Drivertrain	Sales and manufacture of vehicles' components	372,000 (US\$ 12,500 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	148,800 (US\$ 5,000 thousand)	-	-	148,800 (US\$ 5,000 thousand)	929,061 (RMB 206,137 thousand)	17.55	371,624 (RMB 82,455 thousand)	1,794,968 (RMB 393,202 thousand)	-
Fuzhou Fushiang Motor Industrial	Sales and manufacture of vehicles' components	529,133 (US\$ 17,780 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	84,370 (US\$ 2,835 thousand)	-	-	84,370 (US\$ 2,835 thousand)	220,744 (RMB 48,978 thousand)	15.35	77,260 (RMB 17,142 thousand)	682,571 (RMB 149,523 thousand)	-
Xiangyang NTN-YULON Drivertrain	Sales and manufacture of vehicles' components	1,011,840 (US\$ 34,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	404,026 (RMB 89,644 thousand)	17.55	161,610 (RMB 35,858 thousand)	604,612 (RMB 132,445 thousand)	-
Xiamen King-Long Kian-Shen Frame	Sales and manufacture of vehicles' components	438,240 (RMB 96,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	45,444 (US\$ 1,527 thousand)	-	-	45,444 (US\$ 1,527 thousand)	(31,564) (RMB 7,003 thousand)	21.94	(15,782) (RMB 3,502 thousand)	291,708 (RMB 63,901 thousand)	-
Beijing NTN-SEOHAN Driveshaft	The assembling and extra work of transmission shafts and other parts	178,560 (US\$ 6,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	16,070 (US\$ 540 thousand)	-	-	16,070 (US\$ 540 thousand)	-	3.95	-	15,532 (RMB 3,402 thousand)	-
Jiangsu Greentrans Automotive Parts	Manufacture and sales of parts of electronic motorcycles	333,312 (US\$ 11,200 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	333,312 (US\$ 11,200 thousand)	-	-	333,312 (US\$ 11,200 thousand)	(22,374)	100.00	(22,374)	294,963	-
Fujian Rui Hua	Consultation and services	101,184 (US\$ 3,400 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	101,184 (US\$ 3,400 thousand)	-	-	101,184 (US\$ 3,400 thousand)	11	100.00	11	95,190	-
Zhejiang Kangda Motor Industry And Trading	Sales of vehicle and parts	182,600 (RMB 40,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	35,950 (US\$ 1,208 thousand)	-	-	35,950 (US\$ 1,208 thousand)	269,642	24.50	66,062	138,122	-

(Continued)

Investee Company	Main Businesses and Products	Paid-in Capital (Note 1)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017 (Note 1)	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017 (Note 1)	Net Income (Loss) of the Investee (Notes 2 and 3)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Notes 2 and 3)	Carrying Amount as of December 31, 2017 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2017 (Note 1)
					Outflow	Inflow						
Guangzhou Huayou Motor Maintenance	Sales and maintenance of vehicle and parts	\$ 381,226 (US\$ 12,810 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	\$ 333,282 (US\$ 11,199 thousand)	\$ -	\$ -	\$ 333,282 (US\$ 11,199 thousand)	\$ 7,094	100.00	\$ 7,094	\$ 109,825	\$ -
Sichuan Huafeng Hanwei	Sales and maintenance of vehicle and parts	396,701 (US\$ 13,330 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	396,701 (US\$ 13,330 thousand)	-	-	396,701 (US\$ 13,330 thousand)	(6,083)	100.00	(6,083)	118,610	-
Tianjin Hwarui	Sales and maintenance of vehicle and parts	238,675 (US\$ 8,020 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	230,967 (US\$ 7,761 thousand)	-	-	230,967 (US\$ 7,761 thousand)	26,927	100.00	26,927	165,231	-
Dongguan Huayi	Sales and maintenance of vehicle and parts	132,432 (US\$ 4,450 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	125,498 (US\$ 4,217 thousand)	-	-	125,498 (US\$ 4,217 thousand)	51,187	100.00	51,187	130,707	-
Jiang Su Hui Feng Vehicle Service (Note 4)	Maintenance and ancillary services of vehicle	75,204 (US\$ 2,527 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	19,790 (US\$ 665 thousand)	-	-	19,790 (US\$ 665 thousand)	-	35.00	-	-	-
Sichuan Hauwei (Note 5)	Sales of vehicle and parts	13,695 (RMB 3,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	(117) (RMB 26 thousand)	100.00	(117) (RMB 26 thousand)	(1,091) (RMB 239 thousand)	-
Sichuan Lingwei	Sales of vehicle and parts	9,130 (RMB 2,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	1,861 (RMB 413 thousand)	100.00	1,861 (RMB 413 thousand)	(2,470) (RMB 541 thousand)	-
Dongguan Huashun	Sales of vehicle and parts	68,475 (RMB 15,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	40,604 (RMB 9,009 thousand)	100.00	40,604 (RMB 9,009 thousand)	37,141 (RMB 8,136 thousand)	-
Tianjin Hwahong	Sales of vehicle and parts	273,900 (RMB 60,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	26,411 (RMB 5,860 thousand)	100.00	26,411 (RMB 5,860 thousand)	291,042 (RMB 63,755 thousand)	-
Guangzhou Huayou Motor Sales	Sales of vehicle and parts	196,295 (RMB 43,000 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	-	-	-	-	(14,175) (RMB 3,145 thousand)	100.00	(14,175) (RMB 3,145 thousand)	(1,680) (RMB 368 thousand)	-
Gatech Suzhou	Aluminum-magnesium alloy casting industry	723,168 (US\$ 24,300 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	603,146 (US\$ 20,267 thousand)	-	-	603,146 (US\$ 20,267 thousand)	20,152	72.81	20,152	595,230	-
Zhengzhou Tooling & Stamping (Note 6)	Design, manufacture, sales and providing technological services of molds, hardware and stampings	57,063 (RMB 12,500 thousand)	The Corporation indirectly owns these investees through investment company registered in a third region	28,808 (US\$ 968 thousand)	-	-	28,808 (US\$ 968 thousand)	2,830 (US\$ 93 thousand)	29.86	1,704 (US\$ 56 thousand)	-	26,248 (US\$ 882 thousand)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017 (Note 1)	Investment Amount Authorized by Investment Commission, MOEA (Note 1)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$5,535,926 (US\$130,362 thousand and EUR46,566 thousand)	\$6,531,223 (US\$203,367 thousand and EUR13,467 thousand)	\$30,570,013

(Continued)

Note 1: At exchange rate on December 31, 2017, US\$1= NT\$29.76, RMB1= NT\$4.565, EUR1= NT\$35.57.

Note 2: At exchange rate of average rate of the year ended December 31, 2017, US\$1= NT\$30.432, RMB1= NT\$4.507, EUR1= NT\$34.35.

Note 3: The carrying amount and related investment income of the equity investment were calculated based on the audited financial statements of the corresponding year.

Note 4: The ownership of Jiang Su Hui Feng Vehicle Service was sold in March 2016 and transferred in March 2017.

Note 5: The cancellation procedures of Sichuan Houwei are processing.

Note 6: The ownership of Zhengzhou Tooling & Stamping was sold in September 2017.

(Concluded)

CHINA MOTOR CORPORATION

SCHEDULE OF THE STATEMENTS OF IMPORTANT ACCOUNTING ITEMS

Statement	Schedule Number
Statement of Assets, Liabilities and Equities	
Statement of cash and cash equivalents	1
Statement of inventories	2
Change of debt investments with no active market	3
Change of investments accounted for using the equity method	4
Statement of accounts payable	5
Statement of Profit and Loss	
Statement of operating revenue	6
Statement of operating costs	7
Statement of operating expenses	8
Statement of analysis of employee benefits expense, depreciation and amortization by function	9

CHINA MOTOR CORPORATION**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2017****(In Thousands of New Taiwan Dollars, Except Amounts Shown in the Notes)**

Item	Period	Rate	Amount
Cash			
Cash on hand (Note 1)			\$ 2,208
Checking accounts and demand deposits			1,201,304
Foreign currency demand deposits (Note 2)			<u>280,157</u>
			<u>1,483,669</u>
Cash equivalents			
Time deposit	2017.02.01-2020.10.16	0.16%-1.115%	8,007,632
Repurchase agreements collateralized by bonds	2017.12.15-2018.01.19	0.37%-0.39%	972,676
			<u>8,980,308</u>
			<u>\$ 10,463,977</u>

Note 1: Including RMB324 thousand, at an exchange rate of RMB1=\$4,565.

Note 2: Including JPY492,317 thousand, US\$4,014 thousand, EUR777 thousand and RMB658 thousand, at exchange rates of JPY1=\$0.2642, US\$1=\$29.76, EUR1=\$35.57 and RMB1=\$4.565.

CHINA MOTOR CORPORATION**STATEMENT OF INVENTORIES****DECEMBER 31, 2017****(In Thousands of New Taiwan Dollars)**

Item	Amount	
	Cost (Note)	Net Realizable Value
Finished goods	\$ 1,609,822	\$ 2,675,301
Work in progress	19,868	19,964
Vehicle body parts	1,441,913	1,771,035
Raw materials	62,371	62,371
Materials in transit	<u>171,166</u>	<u>171,166</u>
	<u>\$ 3,305,140</u>	<u>\$ 4,699,837</u>

Note: Allowance for loss on inventory valuation included \$74,956 thousand in finished goods, \$6,208 thousand in work in progress and \$55,013 thousand in vehicle body parts.

CHINA MOTOR CORPORATION

**CHANGES IN DEBT INVESTMENTS WITH NO ACTIVE MARKET
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)**

Issuer of Financial Assets	Balance, December 31, 2016	Increase in 2017	Decrease in 2017	Others (Note 1)	Balance, December 31, 2017	Assets Pledged as Collateral
Current						
O-Bank	\$ -	\$ 700,000	\$ -	\$ -	\$ 700,000	No
Uni-President China Holdings Ltd.	32,308	-	(33,208)	900	-	No
President Securities 100% Principle Guaranteed (Note)	<u>-</u>	<u>846,085</u>	<u>(846,085)</u>	<u>-</u>	<u>-</u>	No
	<u>\$ 32,308</u>	<u>\$ 1,546,085</u>	<u>\$ (879,293)</u>	<u>\$ 900</u>	<u>\$ 700,000</u>	
Non-current						
President Securities 100% Principle Guaranteed (Note)	\$ 512,487	\$ -	\$ -	\$ (5,772)	\$ 506,715	No
Taiwan Acceptance Corp.	-	250,059	-	(13)	250,046	No
Société Générale	208,627	-	-	(2,683)	205,944	No
Gatetech Technology	150,000	-	-	-	150,000	No
Value Success International	157,606	-	(19,497)	(815)	137,294	No
Morgan Stanley	138,723	-	-	(1,629)	137,094	No
Deutsche Bank Aktiengesellschaft, Singapore Branch	138,510	-	-	(1,560)	136,950	No
Crédit Agricole Corporate and Investment Bank SA	92,340	-	-	(1,040)	91,300	No
Fonterra Co-operative Group Ltd.	46,372	-	-	(580)	45,792	No
Sinostrong International Ltd.	13,889	-	-	(173)	13,716	No
Yuanta Financial Holdings	296,940	-	(299,994)	3,054	-	No
Sinotrans Sailing Ltd.	69,277	-	(72,222)	2,945	-	No
Kunzhi Limited	69,255	-	(74,955)	5,700	-	No
China Unicom (Hong Kong) Limited	46,190	-	(48,835)	2,645	-	No
Shanghai Baosteel Group Corporation	23,088	-	(23,412)	324	-	No
Bank of China, Abu Dhabi Branch	<u>23,088</u>	<u>-</u>	<u>(24,937)</u>	<u>1,849</u>	<u>-</u>	No
	<u>\$ 1,986,392</u>	<u>\$ 250,059</u>	<u>\$ (563,852)</u>	<u>\$ 2,252</u>	<u>\$ 1,674,851</u>	

Note: Including amortization of discount or premium and unrealized foreign exchange gain or loss.

CHINA MOTOR CORPORATION

**CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Except Unit Price)**

Investee Company	Balance, December 31, 2016		Increase in 2017 (Note 1)		Decrease in 2017 (Note 2)		Share of Profit or Loss of Subsidiaries, Associates and Joint Ventures	Realized (Unrealized) Gain on Transactions with Associates	Share Equity Adjustments (Note 3)	Balance, December 31, 2017			Market Price (Note 4)	
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount				Shares in Thousand	Percentage of Ownership	Amount	Unit Price (NT\$)	Total Amount
Listed shares														
Yulon	262,228	\$ 11,238,239	-	\$ -	-	\$ 131,114	\$ 303,878	\$ -	\$ (130,950)	262,228	16.80	\$ 11,280,053	\$24.15	\$ 6,332,810
Kian Shen	32,201	<u>1,802,753</u>	-	<u>-</u>	-	<u>74,063</u>	<u>237,087</u>	<u>-</u>	<u>(16,173)</u>	32,201	43.87	<u>1,949,604</u>	92.30	<u>2,972,186</u>
		<u>13,040,992</u>		<u>-</u>		<u>205,177</u>	<u>540,965</u>	<u>-</u>	<u>(147,123)</u>			<u>13,229,657</u>		<u>\$ 9,304,996</u>
Unlisted shares														
Fortune Motors	132,117	3,872,973	-	-	-	264,234	484,318	(3,230)	(43,423)	132,117	41.93	4,046,404		
Sino Diamond Motors	325,786	2,762,828	-	-	-	-	100,560	-	(16,233)	325,786	100.00	2,847,155		
Daimler Vans Hong Kong Ltd.	46,566	1,295,405	-	-	-	-	478,741	-	(12,615)	46,566	32.45	1,761,531		
Tokio Marine Newa Insurance	61,511	1,616,241	-	-	-	76,956	182,810	-	30,153	61,511	20.57	1,752,248		
Alliance Investment & Management	183,000	1,644,020	-	-	-	-	(33,201)	-	(4,675)	183,000	100.00	1,606,144		
China Motor Investment	40	1,092,175	-	-	-	-	94,478	-	(9,768)	40	100.00	1,176,885		
ROC-Spicer	1,422	1,136,559	-	-	-	63,295	71,864	-	(24,947)	1,422	29.00	1,120,181		
Hwa Wei Holdings	40	721,913	-	-	-	-	63,074	4,750	(6,512)	40	40.00	783,225		
COC Tooling & Stamping	33,565	756,924	-	-	-	75,148	90,191	-	(2,355)	33,565	49.76	769,612		
Hua-Chuang Automobile Information Technical Center	94,400	737,458	5,600	39,993	-	-	(177,902)	3,351	(720)	100,000	20.00	602,180		
Uni Auto Parts Manufacture	13,032	370,114	-	-	-	19,548	30,098	-	(3,862)	13,032	15.00	376,802		
Shung Ye Motor	26,589	322,893	760	-	-	8,326	16,670	12	(5,043)	27,349	39.98	326,206		
Gatetech Technology	24,725	213,675	-	-	-	-	72,890	-	(3,343)	24,725	56.53	283,222		
China Engine	32,000	147,964	-	-	-	-	6,106	-	(706)	32,000	18.95	153,364		
Sin Gan	7,074	94,450	-	-	-	14,551	26,877	-	(420)	7,074	24.67	106,356		
Uni-Calsonic	-	-	4,524	102,145	-	5,202	6,407	-	(1,596)	4,524	23.20	101,754		
Sin Jiang Enterprises	8,568	96,395	-	-	-	5,189	6,141	-	(297)	8,568	20.01	97,050		
Hwa Chung Motors	8,790	65,041	-	-	-	-	1,183	-	-	8,790	100.00	66,224		
Yulon IT Solutions	8,332	21,822	-	-	-	-	(391)	-	-	8,332	43.85	21,431		
Tai Yuen Venture Capital Investment	26,760	109,784	-	-	26,760	130,303	12,633	-	7,886	-	-	-		
Hwa Hann	521	<u>-</u>	-	<u>-</u>	-	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	521	48.99	<u>-</u>		
		<u>17,078,634</u>		<u>142,138</u>		<u>662,752</u>	<u>1,533,547</u>	<u>4,883</u>	<u>(98,476)</u>			<u>17,997,974</u>		
		<u>\$ 30,119,626</u>		<u>\$ 142,138</u>		<u>\$ 867,929</u>	<u>\$ 2,074,512</u>	<u>\$ 4,883</u>	<u>\$ (245,599)</u>			<u>\$ 31,227,631</u>		

Note 1: Shung Ye Motor issued share dividends. The increase of Hua-Chuang Automobile Information Technical Center included \$39,593 thousand from the liquidation distribution of Tai-Yuen Venture Capital Investment and \$400 thousand paid to acquire shares from Tai-Yuen Textile. The Corporation paid \$21,898 thousand to acquire a 5% interest in Uni-Calsonic. Thus, it is deemed that the Corporation reclassified \$48,730 thousand from financial assets measured at cost to investments accounted for using the equity method at market value on the day that the Corporation exercised significant influence over Uni-Calsonic. The Corporation recognized a disposal benefit of \$31,517 thousand for the year ended December 31, 2017.

Note 2: Except for Tai Yuen Venture Capital Investment which was liquidated in 2017, others issued cash dividends.

Note 3: Including capital surplus of investees, unappropriated earnings of investees, exchange differences on translating foreign operations of investees, unrealized gain (loss) on available-for-sale financial assets of investees and total gains (losses) on effective portion of cash flow hedges.

Note 4: The unit price is calculated by the closing price as of December 31, 2017.

CHINA MOTOR CORPORATION**STATEMENT OF ACCOUNTS PAYABLE****DECEMBER 31, 2017****(In Thousands of New Taiwan Dollars)**

Company Name	Amount
Daimler Trucks Asia Taiwan Ltd.	\$ 191,653
Wu Shiang Industrial Co., Ltd.	72,860
Lioho Machine Works, Ltd.	72,250
Harbin DongAn Automotive Engine Manufacturing Co., Ltd.	59,128
Ta Yih Industrial Co., Ltd.	53,917
Others (Note)	<u>1,449,248</u>
	<u>\$ 1,899,056</u>

Note: The amount of individual customer in others does not exceed \$50,000 thousand of the account balance.

CHINA MOTOR CORPORATION**STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)**

Item	Number	Amount
Net sales		
Domestic sales		
Four-wheel vehicles		
Commercial vehicles	38,758	\$ 18,566,835
Passenger cars	10,368	<u>5,995,453</u>
		<u>24,562,288</u>
Two-wheel vehicles	9,245	<u>479,668</u>
Others		
Materials		3,254,761
Spring steel		331,313
Equipment		<u>91,588</u>
		<u>3,677,662</u>
		<u>28,719,618</u>
Foreign sales		
Four-wheel vehicles	593	146,571
Component materials	12,270	718,204
Materials		167,254
Royalties		<u>8,888</u>
		<u>1,040,917</u>
		<u>29,760,535</u>
Other sales revenue		
Expense of sales-related assistance		195,335
Original equipment manufacturer		156,890
Others		<u>121,937</u>
		<u>474,162</u>
		<u>\$ 30,234,697</u>

CHINA MOTOR CORPORATION**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)**

Item	Amount
Cost of goods sold	
Balance, beginning of year	\$ 2,017,984
Raw materials purchased	19,322,147
Usage of indirect materials	178,003
Cost of goods sold of materials	3,163,984
Transferred to other costs	354
Raw materials and materials, end of year	<u>1,730,463</u>
Usage of direct materials	16,267,327
Direct labor	693,457
Manufacturing expenses	<u>1,689,080</u>
Manufacturing costs	18,649,864
Work in progress, beginning of year	71,503
Work in progress, end of year	<u>26,076</u>
Cost of finished goods	18,695,291
Finished goods, beginning of year	2,007,980
Tax of goods	3,354,108
Others	22,141
Finished goods, end of year	1,684,778
Transferred to other expenses	9,063
Original equipment manufacturer	<u>168,053</u>
Cost of goods sold of finished goods	22,217,626
Cost of goods sold of materials	3,163,984
Inventories write-downs	55,173
Others	<u>22,372</u>
Total cost of goods sold	25,414,411
Other operating costs	<u>219,050</u>
Total operating costs	<u>\$ 25,633,461</u>

CHINA MOTOR CORPORATION**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)**

Items	Selling and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses	Total
Personnel expenses	\$ 86,975	\$ 286,170	\$ 874,609	\$ 1,247,754
Development expenses	1,095	-	174,147	175,242
Advertisement	215,195	7,011	-	222,206
Test tools expenses	-	-	105,581	105,581
Depreciation	1,843	58,808	39,920	100,571
After sales service expenses	99,186	-	-	99,186
Test expenses	1,973	1,347	87,845	91,165
Labor service expenses	9,753	32,035	1,681	43,469
Welfare	-	36,583	-	36,583
Others (Note)	<u>68,353</u>	<u>190,650</u>	<u>160,925</u>	<u>419,928</u>
	<u>\$ 484,373</u>	<u>\$ 612,604</u>	<u>\$ 1,444,708</u>	<u>\$ 2,541,685</u>

Note: The amount of each item in “Others” does not exceed 5% of the account balance.

CHINA MOTOR CORPORATION

STATEMENT OF ANALYSIS OF EMPLOYEE BENEFITS EXPENSE, DEPRECIATION AND AMORTIZATION BY FUNCTION

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31					
	2017			2016		
	Amount of Operation Costs	Amount of Operation Expenses	Total	Amount of Operation Costs	Amount of Operation Expenses	Total
Employee benefits expense						
Salary	\$ 1,098,541	\$ 1,073,604	\$ 2,172,145	\$ 1,176,453	\$ 1,128,102	\$ 2,304,555
Labor and health insurance	84,093	71,114	155,207	80,042	70,330	150,372
Pension	45,275	49,881	95,156	57,589	60,605	118,194
Other employee benefits	<u>33,495</u>	<u>53,155</u>	<u>86,650</u>	<u>32,014</u>	<u>46,942</u>	<u>78,956</u>
	<u>\$ 1,261,404</u>	<u>\$ 1,247,754</u>	<u>\$ 2,509,158</u>	<u>\$ 1,346,098</u>	<u>\$ 1,305,979</u>	<u>\$ 2,652,077</u>
Depreciation	<u>\$ 636,736</u>	<u>\$ 100,571</u>	<u>\$ 737,307</u>	<u>\$ 574,377</u>	<u>\$ 98,102</u>	<u>\$ 672,479</u>
Amortization	<u>\$ -</u>	<u>\$ 82,374</u>	<u>\$ 82,374</u>	<u>\$ -</u>	<u>\$ 75,484</u>	<u>\$ 75,484</u>