

Yulon Nissan Motor Company, Ltd.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Yulon Nissan Motor Company, Ltd.

Opinion

We have audited the accompanying financial statements of Yulon Nissan Motor Company, Ltd. (the Company), 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, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 Company 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.

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.

Depreciation of Molds and Dies

In the application of IAS 16 "Property, Plant and Equipment", the depreciable amount of an asset should be allocated on a systematic basis over its useful life. The Company depreciates molds and dies on the basis of the unit of production method and examines the estimated units sold of each model according to the changes of the market semiannually as a basis to calculate amounts allocated to each mold and die. The depreciation of molds and dies in 2017 was \$450,244 thousand. The amount of depreciation of molds and dies is significant and estimates of units sold are highly dependent on management's judgment. Therefore, the depreciation of molds and dies is considered to be a key audit matter.

The related accounting policy and critical accounting judgments are disclosed in Notes 4 and 5 to the financial statements, respectively; the related amounts are disclosed in Note 11 to the financial statements.

We obtained the information and documents regarding the estimated number of units of future sales by each model from management and assessed the rationality and reliability of the supporting information. In addition, we sampled the transactions of molds and dies to verify original documents and cash flows and performed procedures such as field inventory and confirmation. Besides, we recalculated the amount of depreciation of molds and dies on the basis of estimated production volume in order to assess the rationality of calculated depreciation and the accuracy of the carrying amount. Moreover, we compared whether there was a significant difference between the amended estimated number of units of future sales used in the financial statement of the last year and the actual sales units, so as to evaluate the appropriateness of management's estimation.

Provisions for Warranties

According to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognized at the best estimate of the expenditure required to settle the present obligation at the end of the reporting date. The provisions for warranties are calculated on the basis of the estimate of quarterly warranty expenditure per car and estimated units subject to warranty during the future warranty period. The estimate of quarterly warranty expenditure per car is calculated based on the average of actual warranty expense in the past and the estimated number of units of cars subject to warranty at the end of every quarter. As of December 31, 2017, the carrying amount of the provisions for warranties was \$151,484 thousand. Due to management's use of judgments in estimating the number of units of cars subject to warranties, warranty provisions recognized is considered to be a key audit matter.

The related accounting policy and critical accounting judgments are disclosed in Notes 4 and 5 to the financial statements, respectively; the related amounts are disclosed in Note 16 to the financial statements.

We obtained from management the information and documents regarding the estimated number of units of cars subject to warranty during the warranty period from management and assessed the rationality and reliability of the supporting information. In addition, we sampled the ledgers of actual warranty expenditure this year to verify original documents and cash flows, and we recalculated the amount that should be provided for as warranty according to the warranty policy. Moreover, we compared whether there was a significant difference between the estimated number of units of cars subject to warranty used in the financial statements last year and the actual units of cars subject to warranty, so as to evaluate the appropriateness of management's estimation.

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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including independent directors and supervisors, are responsible for overseeing the Company'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 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 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 Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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 partner on the audit resulting in this independent auditors' report is Wan-I Liao.

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.

YULON NISSAN MOTOR COMPANY, LTD.

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 6,045,156	23	\$ 9,268,414	31
Financial assets at fair value through profit or loss (Notes 4 and 7)	874,052	3	2,275,103	8
Notes receivable - related parties (Notes 4 and 27)	1,612	-	4,174	-
Trade receivables (Notes 4 and 8)	39,135	-	40,532	-
Trade receivables - related parties (Notes 4 and 27)	902,139	4	545,098	2
Other receivables (Notes 4 and 8)	123,460	1	57,311	-
Inventories (Notes 4 and 9)	-	-	2,509	-
Prepayments (Note 27)	20,069	-	15,853	-
Total current assets	8,005,623	31	12,208,994	41
NON-CURRENT ASSETS				
Investments accounted for using equity method (Notes 4 and 10)	16,023,303	62	15,281,346	51
Property, plant and equipment (Notes 4, 11 and 27)	1,479,225	6	1,703,040	6
Computer software (Notes 4 and 12)	20,882	-	17,407	-
Deferred tax assets (Notes 4 and 21)	127,060	1	128,364	1
Other non-current assets (Notes 13 and 27)	114,548	-	387,771	1
Total non-current assets	17,765,018	69	17,517,928	59
TOTAL	\$ 25,770,641	100	\$ 29,726,922	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 14)	\$ -	-	\$ 3,630,000	12
Notes payable - related parties (Note 27)	-	-	1,536	-
Trade payables	55,385	-	33,967	-
Trade payables - related parties (Note 27)	875,464	3	1,083,176	4
Other payables (Note 15)	913,372	4	886,241	3
Current tax liabilities (Notes 4 and 21)	442,943	2	452,079	1
Provisions (Notes 4, 5 and 16)	192,278	1	196,036	1
Other current liabilities (Notes 17 and 27)	66,184	-	27,730	-
Total current liabilities	2,545,626	10	6,310,765	21
NON-CURRENT LIABILITIES				
Provisions (Notes 4, 5 and 16)	62,931	-	65,387	-
Net defined benefit liabilities (Notes 4 and 18)	392,625	2	441,009	2
Deferred tax liabilities (Notes 4 and 21)	1,511,815	6	1,315,478	4
Other non-current liabilities (Notes 17 and 27)	63,020	-	39,940	-
Total non-current liabilities	2,030,391	8	1,861,814	6
Total liabilities	4,576,017	18	8,172,579	27
EQUITY				
Capital stock - NT\$10 par value; authorized - 600,000 thousand stocks; issued and outstanding - 300,000 thousand stocks	3,000,000	12	3,000,000	10
Capital surplus	6,129,405	24	6,129,405	21
Retained earnings				
Legal reserve	4,519,914	17	4,056,853	14
Special reserve	788,877	3	788,877	3
Unappropriated earnings	7,131,446	28	7,541,356	25
Total retained earnings	12,440,237	48	12,387,086	42
Other equity	(375,018)	(2)	37,852	-
Total equity	21,194,624	82	21,554,343	73
TOTAL	\$ 25,770,641	100	\$ 29,726,922	100

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

YULON NISSAN MOTOR COMPANY, LTD.

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 (Note 27)				
Sales (Note 4)	\$ 33,092,856	100	\$ 34,792,566	100
Service revenue (Note 4)	32,551	-	6,173	-
Other operating revenue	96,367	-	61,707	-
Total operating revenue	33,221,774	100	34,860,446	100
OPERATING COSTS (Notes 9, 20 and 27)	27,037,319	82	29,813,797	86
GROSS PROFIT	6,184,455	18	5,046,649	14
OPERATING EXPENSES (Notes 18, 20 and 27)				
Selling and marketing expenses	3,092,559	9	2,938,452	8
General and administrative expenses	322,756	1	372,841	1
Research and development expenses	672,305	2	525,674	2
Total operating expenses	4,087,620	12	3,836,967	11
OTHER OPERATING INCOME AND EXPENSES (Notes 20 and 27)	(685)	-	14,581	-
PROFIT FROM OPERATIONS	2,096,150	6	1,224,263	3
NON-OPERATING INCOME AND EXPENSES				
Share of profit of subsidiary	6,225,205	19	4,536,994	13
Interest income (Note 4)	139,956	-	65,702	-
Gain on financial assets at fair value through profit or loss, net	4,052	-	10,103	-
Other revenue	2,000	-	1,521	-
Gain (loss) on disposal of investments, net (Note 20)	1,945	-	(19,444)	-
Net foreign exchange loss (Note 20)	(441,720)	(1)	(180,828)	-
Interest expenses (Note 27)	(11,158)	-	(34,726)	-
Overseas business expenses (Note 27)	(10,915)	-	(13,259)	-
Other losses (Note 27)	(2,094)	-	(4,222)	-
Total non-operating income and expenses	5,907,271	18	4,361,841	13
PROFIT BEFORE INCOME TAX	8,003,421	24	5,586,104	16
INCOME TAX EXPENSES (Notes 4 and 21)	1,360,921	4	955,489	3
NET PROFIT FOR THE YEAR	6,642,500	20	4,630,615	13

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YULON NISSAN MOTOR COMPANY, LTD.

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	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 18)	\$ 12,930	-	\$ (20,226)	-
Share of the other comprehensive loss of subsidiaries accounted for using equity method	(98)	-	(64)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 21)	<u>(2,181)</u>	<u>-</u>	<u>3,449</u>	<u>-</u>
	<u>10,651</u>	<u>-</u>	<u>(16,841)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	<u>(412,870)</u>	<u>(1)</u>	<u>(1,264,609)</u>	<u>(3)</u>
Other comprehensive loss for the year, net of income tax	<u>(402,219)</u>	<u>(1)</u>	<u>(1,281,450)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 6,240,281</u>	<u>19</u>	<u>\$ 3,349,165</u>	<u>10</u>
EARNINGS PER SHARE (Note 22)				
Basic	<u>\$22.14</u>		<u>\$15.44</u>	
Diluted	<u>\$22.14</u>		<u>\$15.43</u>	

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

(Concluded)

YULON NISSAN MOTOR COMPANY, LTD.

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)

	Capital Stock	Capital Surplus (Note 19)	Retained Earnings (Notes 19 and 21)			Other Equity Exchange Differences on Translating Foreign Operations	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		
BALANCE AT JANUARY 1, 2016	\$ 3,000,000	\$ 6,129,405	\$ 3,640,263	\$ 788,877	\$ 7,094,172	\$ 1,302,461	\$ 21,955,178
Appropriation of 2015 earnings	-	-	416,590	-	(416,590)	-	-
Legal reserve	-	-	-	-	(3,750,000)	-	(3,750,000)
Cash dividends distributed by the Company - NT\$12.5 per share	-	-	416,590	-	(4,166,590)	-	(3,750,000)
Net profit for the year ended December 31, 2016	-	-	-	-	4,630,615	-	4,630,615
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	(16,841)	(1,264,609)	(1,281,450)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	4,613,774	(1,264,609)	3,349,165
BALANCE AT DECEMBER 31, 2016	3,000,000	6,129,405	4,056,853	788,877	7,541,356	37,852	21,554,343
Appropriation of 2016 earnings	-	-	463,061	-	(463,061)	-	-
Legal reserve	-	-	-	-	(6,600,000)	-	(6,600,000)
Cash dividends distributed by the Company - NT\$22 per share	-	-	463,061	-	(7,063,061)	-	(6,600,000)
Net profit for the year ended December 31, 2017	-	-	-	-	6,642,500	-	6,642,500
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	10,651	(412,870)	(402,219)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	6,653,151	(412,870)	6,240,281
BALANCE AT DECEMBER 31, 2017	\$ 3,000,000	\$ 6,129,405	\$ 4,519,914	\$ 788,877	\$ 7,131,446	\$ (375,018)	\$ 21,194,624

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

YULON NISSAN MOTOR COMPANY, LTD.

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	\$ 8,003,421	\$ 5,586,104
Adjustments for:		
Depreciation expenses	483,121	442,764
Amortization expenses	5,280	4,941
Gain on financial assets at fair value through profit or loss, net	(4,052)	(10,103)
Interest expense	11,158	34,726
Interest income	(139,956)	(65,702)
Share of the profit of subsidiary	(6,225,205)	(4,536,994)
Loss (gain) on disposal of property, plant and equipment, net	685	(14,581)
Loss (gain) on disposal of investment, net	(1,945)	19,444
Net foreign exchange loss	197,778	69,364
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	1,407,048	(792,901)
Notes receivable - related parties	2,562	1,965
Trade receivables	1,393	30,400
Trade receivables - related parties	(357,071)	(43,370)
Other receivables	(81,761)	(2,545)
Inventories	2,509	511
Prepayments	(4,216)	53
Notes payable	-	(243,000)
Notes payable - related parties	(1,536)	1,536
Trade payables	21,418	(20,006)
Trade payables - related parties	32,266	(57,363)
Other payables	28,325	(15,701)
Other current liabilities	38,454	(3,702)
Provisions	(6,214)	14,873
Other non-current liabilities	23,080	39,940
Net defined benefit liabilities	(35,454)	(152,580)
Cash generated from operations	3,401,088	288,073
Interest paid	(12,352)	(34,714)
Income tax paid	(662,080)	(867,376)
Net cash generated from (used in) operating activities	<u>2,726,656</u>	<u>(614,017)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	4,563,252	5,549,705
Interest received	155,568	49,405
Payments for property, plant and equipment (Note 23)	(505,559)	(281,772)
Proceeds from disposal of property, plant, and equipment	3,986	22,478
Payments for computer software	(11,460)	(8,018)
Decrease in refundable deposits	<u>277,532</u>	<u>29,410</u>
Net cash generated from investing activities	<u>4,483,319</u>	<u>5,361,208</u>

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YULON NISSAN MOTOR COMPANY, LTD.

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

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term borrowings	\$ (3,630,000)	\$ -
Payments of dividends	<u>(6,600,000)</u>	<u>(3,750,000)</u>
Cash used in financing activities	<u>(10,230,000)</u>	<u>(3,750,000)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(203,233)</u>	<u>(92,389)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,223,258)	904,802
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>9,268,414</u>	<u>8,363,612</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 6,045,156</u>	<u>\$ 9,268,414</u>

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

(Concluded)

YULON NISSAN MOTOR COMPANY, LTD.

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

Yulon Nissan Motor Company, Ltd. (the “Company”) is a business focused on the research and development of vehicles and the sale of vehicles. The Company started its operations in October 2003, after Yulon Motor Co., Ltd. (“Yulon”) transferred its sales and research and development businesses to the Company in October 2003 through a spin-off. The Company’s spin-off from Yulon intended to increase Yulon’s competitive advantage and participation in the global automobile network and to enhance its professional management. The spin-off date was October 1, 2003.

Yulon initially held 100% equity interest in the Company but then transferred 40% of its equity to Nissan Motor Co., Ltd. (“Nissan”), a Japanese motor company, on October 30, 2003. The Company became listed on December 21, 2004 after the initial public offering application of the Company was accepted by the Taiwan Stock Exchange Corporation on October 6, 2004.

2. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Company’s board of directors on March 26, 2018.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by 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 Company’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 emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions.

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

transaction or balance, such transaction should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 27 for 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 IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

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

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

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

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

Except for the above, all other financial assets are measured at fair value through profit or loss.

The Company analyzed the facts and circumstances of its financial assets that existed at December 31, 2017 and performed an assessment of the impact of IFRS 9 on the classification and measurement of factored trade receivables. The factored trade receivables classified as loans and receivables and measured at amortized cost will be classified as at fair value through profit or loss under IFRS 9, because, on initial recognition, the contractual cash flows that are solely payments of principal and these investments are held within a business model whose objective is achieved by selling financial assets without recourse.

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

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

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

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

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

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

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

- Identify the contract with the customer;
- Identify the performance obligations in the contract;

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

The Company elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

In addition, the Company will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The application of IFRS 15 is not expected to have a material impact on the assets, liabilities and equity of the Company as of January 1, 2018.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company assess the possible impact that the application of other standards and interpretations will not have any material impact on the Company's financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 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 IFRSs are effective for annual periods beginning on or after their respective effective dates.

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

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

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

IFRS 16 "Leases"

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense

accrued on the lease liability; interest is computed by using effective interest method. On the statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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").

Basis of Preparation

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

The fair value measurements 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, which are described as follows:

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

When preparing its financial statements, the Company used equity method to account for its investment in subsidiaries. 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 with the amounts attributable to the owner of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatment between basis and consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries, share of other comprehensive income of subsidiaries, as appropriate, in the financial statements.

Classification of Current and Non-current Assets and Liabilities

Current assets include cash, cash equivalents, assets held for trading purposes and assets that are expected to be converted into cash or consumed within one year from the balance sheet date; assets other than current assets are non-current assets. Current liabilities include liabilities due to be settled within one year from the balance sheet date; liabilities other than current liabilities are non-current liabilities.

Foreign Currencies

The functional currency of Company and presentation currency of the financial statements are both New Taiwan dollars (NT\$). Functional currency is the currency of the primary economic environment in which the Company operates.

In preparing the financial statements, transactions in currencies other than the New Taiwan dollars 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. Such exchange differences are recognized in profit or loss in the year in which they arise. Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated.

The financial statements of foreign subsidiaries prepared in foreign currencies are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - year-end rates; profit and loss - average rates during the year; equity - historical rates. The resulting differences are recorded as other comprehensive income.

Inventories

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

Investments in Subsidiaries

The Company uses the equity method to account for its investments in subsidiaries. Subsidiary is an entity that is controlled by the Company.

Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiaries.

Investments accounted for using equity method are assessed for indicators of impairment at the end of each reporting period. When there is objective evidence that the investments accounted for using equity method have been impaired, the impairment losses are recognized in profit or loss.

Property, Plant and Equipment

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

The Company depreciates molds and dies on the basis of estimated units sold. Other property, plant and equipment are depreciated by using straight-line method. The estimated sales volume, useful lives, residual values and depreciation method of an asset are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Computer Software

Computer software is stated at cost, less subsequent accumulated amortization. The amortization is recognized on a straight-line basis over 3 years. The estimated useful life, residual value and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of computer software shall be assumed to be zero unless the Company expects to dispose of the asset before the end of its economic life.

Impairment of Assets

When the carrying amount of property, plant and equipment and computer software exceeds its recoverable amount, the excess is recognized as an impairment loss. When an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

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

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

a. Financial assets

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

1) Measurement category

a) Financial assets 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. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest (included dividend or interest received in the investment year) earned on the financial asset. Method to determine the fair value please refer to Note 26.

b) Loans and receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits and repurchase agreements collateralized by bonds with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash, and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade receivables and other receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

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

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

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

3) Derecognition of financial assets

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

b. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

The Company derecognizes a financial liability only when the obligation specified in the contract is discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Provisions

a. Inventory purchase commitments

Where the Company has a commitment under which the unavoidable costs of meeting the obligations under the commitment exceed the economic benefits expected to be received from the commitment, the present obligations arising under such commitments are recognized and measured as provisions.

b. Warranties

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 Company of the expenditure required to settle the Company's obligation.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable.

a. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed.

b. Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

c. Dividend and interest income

Dividend income from investments is recognized when the stockholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Employee Benefits

a. 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.

b. Retirement benefits

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

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

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan.

c. Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

Taxation

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

a. Current tax

Current tax payable depends on current taxable profit. Taxable income is different from the net income before tax on the statement of comprehensive income for the reason that partial revenue and expenses are taxable or deductible items in other period, or not the taxable or deductible items according to related Income Tax Law. The Company's current tax liabilities are calculated by the legislated tax rate on balance sheet date.

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

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company 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.

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

Deferred tax assets and liabilities 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.

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

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

The following are the key assumptions and other key sources of estimation uncertainty at the end of the reporting period.

a. Property, plant and equipment - molds and dies

The Company depreciates molds and dies on the basis of a units of production method and examines the estimated units sold of each model according to the changes in the market semiannually as a basis to calculate amounts allocated to each mold and die.

b. Provisions for the expected cost of warranties

The provisions for warranties are calculated on the basis of the estimate of quarterly warranty expenditure per car and the estimated units subject to warranty during the future warranty period. The estimate of quarterly warranty expenditure per car is calculated based on the average of actual warranty expense in the past and the estimated number of units of cars subject to warranty at the end of every quarter. As of December 31, 2017 and 2016, the carrying amounts of provisions for warranties were \$151,484 thousand and \$136,731 thousand, respectively.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ -	\$ 20
Checking accounts and demand deposits	925,330	984,164
Foreign currency demand deposits	2,173,566	261,676
Cash equivalents		
Foreign currency time deposits	2,328,150	7,458,316
Time deposits	6,900	206,900
Repurchase agreements collateralized by bonds	<u>611,210</u>	<u>357,338</u>
	<u>\$ 6,045,156</u>	<u>\$ 9,268,414</u>

Cash equivalents include time deposits and repurchase agreements collateralized by bonds with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash, and are subject to an insignificant risk of change in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

The market interest rates intervals of demand deposits, time deposits and repurchase agreements collateralized by bonds at the end of the reporting period were as follows:

	December 31	
	2017	2016
Demand deposits and time deposits	0.001%-4.10%	0.001%-9.00%
Repurchase agreements collateralized by bonds	1.85%-2.00%	1.50%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
<u>Financial assets held for trading</u>		
Non-derivative financial assets		
Mutual funds	\$ <u>874,052</u>	\$ <u>2,275,103</u>

8. TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2017	2016
Trade receivables	\$ <u>39,135</u>	\$ <u>40,532</u>
Other receivables		
Interest receivables	\$ 2,525	\$ 18,137
Disposal of mutual funds receivables	98,000	17,198
Others	<u>22,935</u>	<u>21,976</u>
	\$ <u>123,460</u>	\$ <u>57,311</u>

a. Trade receivables

For the trade receivables balances that were past due at the end of the reporting period, the Company did not recognize an allowance for impairment loss, because there was not a significant change in credit quality and the amounts were still considered recoverable. The Company did not hold any collateral or other credit enhancements for these balances.

The aging of receivables based on the past due days from invoice date was as follows:

	December 31	
	2017	2016
0-60 days	\$ 39,135	\$ 37,202
61-90 days	<u>-</u>	<u>3,330</u>
	\$ <u>39,135</u>	\$ <u>40,532</u>

The aging of receivables that were past due but not impaired was as follows:

	December 31	
	2017	2016
1-60 days	\$ <u>3,088</u>	\$ <u>4,907</u>

b. Other receivables

The Company will assess other receivables for impairment when there is objective evidence of impairment; the assessment is done on every account individually.

There were no past due other receivables balances at the end of the reporting period and the Company did not recognize an allowance for impairment loss.

9. INVENTORIES

	December 31	
	2017	2016
Parts	\$ -	\$ 2,509

The cost of inventories recognized as cost of goods sold for the year ended December 31, 2017 was \$27,037,319 thousand, which included warranty costs of \$156,914 thousand and reversals of losses on inventory purchase commitments of \$20,967 thousand. The cost of inventories recognized as cost of goods sold for the year ended December 31, 2016 was \$29,813,797 thousand, which included warranty costs of \$127,316 thousand and losses on inventory purchase commitments of \$1,197 thousand.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	2016
<u>Investment in subsidiary</u>		
Yi-Jan Overseas Investment Co., Ltd.	\$ 16,023,303	\$ 15,281,346

As the end of the reporting period, the proportion of ownership and voting rights in subsidiary was as follow:

	Proportion of Ownership and Voting Rights December 31	
	2017	2016
Yi-Jan Overseas Investment Co., Ltd.	100%	100%

Refer to Table 5 for the details of the subsidiaries indirectly held by the Company.

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

11. PROPERTY, PLANT AND EQUIPMENT

	Molds	Dies	Computer Equipment	Other Equipment	Transportation Equipment	Machinery and Equipment	Leasehold Improvements	Tools	Total
<u>Cost</u>									
Balance at January 1, 2016	\$ 4,463,975	\$ 854,314	\$ 78,353	\$ 151,582	\$ 8,408	\$ 15,784	\$ 8,903	\$ 5,694	\$ 5,587,013
Additions	288,885	-	6,144	21,802	10,034	-	-	-	326,865
Disposals	-	-	(7,427)	(13,774)	-	(9,122)	-	-	(30,323)
Reversal	(109,395)	-	-	-	-	-	-	-	(109,395)
Balance at December 31, 2016	\$ 4,643,465	\$ 854,314	\$ 77,070	\$ 159,610	\$ 18,442	\$ 6,662	\$ 8,903	\$ 5,694	\$ 5,774,160

(Continued)

	Molds	Dies	Computer Equipment	Other Equipment	Transportation Equipment	Machinery and Equipment	Leasehold Improvements	Tools	Total
<u>Accumulated depreciation and impairment</u>									
Balance at January 1, 2016	\$ (2,950,144)	\$ (527,202)	\$ (68,095)	\$ (79,339)	\$ (3,118)	\$ (14,985)	\$ (2,394)	\$ (5,505)	\$ (3,650,782)
Depreciation expenses	(333,085)	(79,186)	(4,309)	(22,528)	(1,624)	(170)	(1,772)	(90)	(442,764)
Disposals	-	-	7,350	5,954	-	9,122	-	-	22,426
Balance at December 31, 2016	<u>\$ (3,283,229)</u>	<u>\$ (606,388)</u>	<u>\$ (65,054)</u>	<u>\$ (95,913)</u>	<u>\$ (4,742)</u>	<u>\$ (6,033)</u>	<u>\$ (4,166)</u>	<u>\$ (5,595)</u>	<u>\$ (4,071,120)</u>
Carrying amount, net, December 31, 2016	<u>\$ 1,360,236</u>	<u>\$ 247,926</u>	<u>\$ 12,016</u>	<u>\$ 63,697</u>	<u>\$ 13,700</u>	<u>\$ 629</u>	<u>\$ 4,737</u>	<u>\$ 99</u>	<u>\$ 1,703,040</u>
<u>Cost</u>									
Balance at January 1, 2017	\$ 4,643,465	\$ 854,314	\$ 77,070	\$ 159,610	\$ 18,442	\$ 6,662	\$ 8,903	\$ 5,694	\$ 5,774,160
Additions	182,418	46,121	9,509	18,574	4,650	-	-	-	261,272
Reclassification	-	-	2,705	-	-	-	-	-	2,705
Disposals	(1,050)	-	(6,701)	(545)	(4,070)	-	(4,510)	-	(16,876)
Balance at December 31, 2017	<u>\$ 4,824,833</u>	<u>\$ 900,435</u>	<u>\$ 82,583</u>	<u>\$ 177,639</u>	<u>\$ 19,022</u>	<u>\$ 6,662</u>	<u>\$ 4,393</u>	<u>\$ 5,694</u>	<u>\$ 6,021,261</u>
<u>Accumulated depreciation and impairment</u>									
Balance at January 1, 2017	\$ (3,283,229)	\$ (606,388)	\$ (65,054)	\$ (95,913)	\$ (4,742)	\$ (6,033)	\$ (4,166)	\$ (5,595)	\$ (4,071,120)
Depreciation expenses	(373,151)	(77,093)	(5,756)	(22,856)	(2,353)	(168)	(1,688)	(56)	(483,121)
Disposals	1,050	-	6,668	530	226	-	3,731	-	12,205
Balance at December 31, 2017	<u>\$ (3,655,330)</u>	<u>\$ (683,481)</u>	<u>\$ (64,142)</u>	<u>\$ (118,239)</u>	<u>\$ (6,869)</u>	<u>\$ (6,201)</u>	<u>\$ (2,123)</u>	<u>\$ (5,651)</u>	<u>\$ (4,542,036)</u>
Carrying amount, net, December 31, 2017	<u>\$ 1,169,503</u>	<u>\$ 216,954</u>	<u>\$ 18,441</u>	<u>\$ 59,400</u>	<u>\$ 12,153</u>	<u>\$ 461</u>	<u>\$ 2,270</u>	<u>\$ 43</u>	<u>\$ 1,479,225</u>

(Concluded)

The above reversal is due to the decline of the original cost of molds.

There were no signs of impairment losses of assets for the years ended December 31, 2017 and 2016; therefore, the Company did not assess for impairment.

Except molds and dies which are depreciated on an estimated units-sold basis, other property, plant and equipment are depreciated on a straight-line basis over the assets' estimated useful lives. The estimated useful lives are as follows:

Computer equipment	3 to 5 years
Other equipment	
Powered equipment	15 years
Experimental equipment	3 to 8 years
Office and communication equipment	3 years
Other equipment	1 to 10 years
Transportation equipment	4 to 5 years
Machinery and equipment	3 to 10 years
Leasehold improvements	5 years
Tools	2 to 5 years

12. COMPUTER SOFTWARE

	Amount
<u>Cost</u>	
Balance at January 1, 2016	\$ 20,685
Additions	8,018
Disposals	<u>(1,414)</u>
Balance at December 31, 2016	<u>\$ 27,289</u>
<u>Accumulated amortization</u>	
Balance at January 1, 2016	\$ (6,355)
Amortization expenses	(4,941)
Disposals	<u>1,414</u>
Balance at December 31, 2016	<u>\$ (9,882)</u>
Carrying amount at December 31, 2016	<u>\$ 17,407</u>
<u>Cost</u>	
Balance at January 1, 2017	\$ 27,289
Reclassification	(2,705)
Additions	11,460
Disposals	<u>(10,742)</u>
Balance at December 31, 2017	<u>\$ 25,302</u>
<u>Accumulated amortization</u>	
Balance at January 1, 2017	\$ (9,882)
Amortization expenses	(5,280)
Disposals	<u>10,742</u>
Balance at December 31, 2017	<u>\$ (4,420)</u>
Carrying amount at December 31, 2017	<u>\$ 20,882</u>

There were no signs of impairment losses of assets for the years ended December 31, 2017 and 2016; therefore, the Company did not assess for impairment.

13. OTHER NON-CURRENT ASSETS

	<u>December 31</u>	
	2017	2016
Refundable deposits (Note 27)	\$ 98,575	\$ 376,107
Prepayments for equipment	<u>15,973</u>	<u>11,664</u>
	<u>\$ 114,548</u>	<u>\$ 387,771</u>

14. SHORT-TERM BORROWINGS

	December 31	
	2017	2016
Unsecured bank loans	\$ <u>-</u>	\$ <u>3,630,000</u>
Range of interest rates	-	0.89%-1.06%

15. OTHER PAYABLES

	December 31	
	2017	2016
Advertising and promotion fees	\$ 452,021	\$ 480,992
Salaries and bonuses	344,476	316,620
Others	<u>116,875</u>	<u>88,629</u>
	<u>\$ 913,372</u>	<u>\$ 886,241</u>

16. PROVISIONS

	December 31	
	2017	2016
Current		
Inventory purchase commitments	\$ 103,725	\$ 124,692
Warranties	<u>88,553</u>	<u>71,344</u>
	<u>\$ 192,278</u>	<u>\$ 196,036</u>
Non-current		
Warranties	<u>\$ 62,931</u>	<u>\$ 65,387</u>

	Inventory Purchase Commitments	Warranties	Total
Balance at January 1, 2016	\$ 123,495	\$ 123,055	\$ 246,550
Additional provisions recognized	1,197	127,316	128,513
Paid	<u>-</u>	<u>(113,640)</u>	<u>(113,640)</u>
Balance at December 31, 2016	<u>\$ 124,692</u>	<u>\$ 136,731</u>	<u>\$ 261,423</u>
Balance at January 1, 2017	\$ 124,692	\$ 136,731	\$ 261,423
Additional provisions recognized (reversed)	(20,967)	156,914	135,947
Paid	<u>-</u>	<u>(142,161)</u>	<u>(142,161)</u>
Balance at December 31, 2017	<u>\$ 103,725</u>	<u>\$ 151,484</u>	<u>\$ 255,209</u>

The provisions for losses on inventory purchase commitments represent the present obligations of which the unavoidable costs for meeting the obligations under the commitments exceed the economic benefits expected to be received from the commitments.

The provisions for warranty claims represent the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties under the local sale of goods legislation. The estimate had been made on the basis of historical warranty trends.

17. OTHER LIABILITIES

	December 31	
	2017	2016
Current		
Receipts in advance (Note 27)	\$ 59,052	\$ 21,719
Withholding	3,107	2,000
Others	<u>4,025</u>	<u>4,011</u>
	<u>\$ 66,184</u>	<u>\$ 27,730</u>
Non-current		
Receipts in advance (Note 27)	<u>\$ 63,020</u>	<u>\$ 39,940</u>

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

The total expense recognized in profit or loss for the years ended December 31, 2017 and 2016 was \$14,440 thousand and \$14,060 thousand, respectively, represents contributions payable to these plans by the Company at rates specified in the rules of the plans.

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

	For the Year Ended December 31	
	2017	2016
Selling and marketing expenses	\$ 4,924	\$ 4,731
General and administrative expenses	4,385	4,322
Research and development expenses	4,875	4,766
Non-operating expenses	<u>256</u>	<u>241</u>
	<u>\$ 14,440</u>	<u>\$ 14,060</u>

b. Defined benefit plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes 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 Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in

one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Company has no right to influence the investment policy and strategy.

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

	December 31	
	2017	2016
Present value of funded defined benefit obligation	\$ 597,831	\$ 609,866
Fair value of plan assets	<u>(205,206)</u>	<u>(168,857)</u>
Deficit	<u>\$ 392,625</u>	<u>\$ 441,009</u>
Net defined benefit liabilities	<u>\$ 392,625</u>	<u>\$ 441,009</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2016	<u>\$ 583,971</u>	<u>\$ (10,608)</u>	<u>\$ 573,363</u>
Service cost			
Current service cost	5,251	-	5,251
Past service cost	4,608	-	4,608
Net interest expense (income)	<u>8,578</u>	<u>(207)</u>	<u>8,371</u>
Recognized in profit or loss	<u>18,437</u>	<u>(207)</u>	<u>18,230</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(906)	(906)
Actuarial loss - changes in demographic assumptions	6,372	-	6,372
Actuarial loss - changes in financial assumptions	22,425	-	22,425
Actuarial gain - experience adjustments	<u>(7,665)</u>	<u>-</u>	<u>(7,665)</u>
Recognized in other comprehensive income	<u>21,132</u>	<u>(906)</u>	<u>20,226</u>
Contributions from the employer	<u>-</u>	<u>(157,136)</u>	<u>(157,136)</u>
Benefits paid	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities extinguished on settlement	<u>(13,674)</u>	<u>-</u>	<u>(13,674)</u>
Balance at December 31, 2016	<u>\$ 609,866</u>	<u>\$ (168,857)</u>	<u>\$ 441,009</u>
Balance at January 1, 2017	<u>\$ 609,866</u>	<u>\$ (168,857)</u>	<u>\$ 441,009</u>
Service cost			
Current service cost	5,305	-	5,305
Past service cost	-	-	-
Net interest expense (income)	<u>6,861</u>	<u>(1,936)</u>	<u>4,925</u>
Recognized in profit or loss	<u>12,166</u>	<u>(1,936)</u>	<u>10,230</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ 139	\$ 139
Actuarial loss - changes in demographic assumptions	9,243	-	9,243
Actuarial loss - changes in financial assumptions	-	-	-
Actuarial loss - experience adjustments	(22,312)	-	(22,312)
Recognized in other comprehensive income	(13,069)	139	(12,930)
Contributions from the employer	-	(41,920)	(41,920)
Benefits paid	(7,368)	7,368	-
Liabilities extinguished on settlement	(3,764)	-	(3,764)
Balance at December 31, 2017	<u>\$ 597,831</u>	<u>\$ (205,206)</u>	<u>\$ 392,625</u> (Concluded)

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
Selling and marketing expenses	\$ 2,522	\$ 4,595
General and administrative expenses	3,277	7,158
Research and development expenses	4,046	5,993
Non-operating expenses	<u>385</u>	<u>484</u>
	<u>\$ 10,230</u>	<u>\$ 18,230</u>

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

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government/corporate 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 principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2017	2016
Discount rate(s)	1.125%	1.125%
Expected rate(s) of salary increase	2.50%	2.50%

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

	December 31	
	2017	2016
Discount rate(s)		
0.25% increase	<u>\$ (14,238)</u>	<u>\$ (15,158)</u>
0.25% decrease	<u>\$ 14,762</u>	<u>\$ 15,733</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 14,313</u>	<u>\$ 15,257</u>
0.25% decrease	<u>\$ (13,879)</u>	<u>\$ (14,779)</u>

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

	December 31	
	2017	2016
The expected contributions to the plan for the next year	<u>\$ 6,584</u>	<u>\$ 6,454</u>
The average duration of the defined benefit obligation	9.8 years	10.3 years

19. EQUITY

a. Capital surplus

	December 31	
	2017	2016
Excess from spin-off	\$ 5,986,507	\$ 5,986,507
Generated from investments accounted for using equity method	<u>142,898</u>	<u>142,898</u>
	<u>\$ 6,129,405</u>	<u>\$ 6,129,405</u>

The capital surplus arising from shares issued in excess of par (including excess from spin-off) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital stock (limited to a certain percentage of the Company's capital surplus and to once a year).

The capital surplus from investments accounted for using equity method may not be used for any purpose.

b. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. The stockholders held their regular meeting on June 30, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

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

The Company operates in a mature and stable industry. In determining the distribution of dividends, the Company considers factors such as the impact of dividends on reported profitability, cash required for future operations, any potential changes in the industry, interest of the stockholders and the effect on the of Company's financial ratios. The amount of dividends, which can be cash dividends or stock dividends, is formulated to be less than 90% of net income, though the final issued ratios would be proposed and approved by the board of directors. Cash dividends should be at least 20% of total dividends to be distributed to the stockholders.

Under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

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

The appropriations of earnings for 2016 and 2015 had been approved in the stockholders' meetings on June 26, 2017 and June 30, 2016, respectively, were as follows:

	<u>Appropriation of Earnings</u> <u>For the Year Ended</u> <u>December 31</u>		<u>Dividends Per Share (NT\$)</u> <u>For the Year Ended</u> <u>December 31</u>	
	2016	2015	2016	2015
Legal reserve	\$ 463,061	\$ 416,590		
Cash dividends	6,600,000	3,750,000	\$ 22.0	\$ 12.5

20. NET PROFIT

a. Other operating income and expenses

	<u>For the Year Ended December 31</u>	
	2017	2016
Gains on disposal of property, plant and equipment	\$ 104	\$ 14,669
Losses on disposal of property, plant and equipment	<u>(789)</u>	<u>(88)</u>
Net (loss) profit	<u>\$ (685)</u>	<u>\$ 14,581</u>

b. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	\$ 483,121	\$ 442,764
Computer software	<u>5,280</u>	<u>4,941</u>
	<u>\$ 488,401</u>	<u>\$ 447,705</u>
An analysis of depreciation by function		
Operating costs	\$ 450,244	\$ 412,271
Operating expenses	<u>32,877</u>	<u>30,493</u>
	<u>\$ 483,121</u>	<u>\$ 442,764</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 5,280</u>	<u>\$ 4,941</u>

c. Technical cooperation agreement

	For the Year Ended December 31	
	2017	2016
Operating costs	<u>\$ 517,931</u>	<u>\$ 539,184</u>

The Company has a technical cooperation agreement (the “TCA”) with Nissan and Autech Japan, Inc. The TCA with Nissan is based on purchase costs less commodity tax. The TCA with Autech Japan, Inc. is based on development expenses together with royalty expenses.

d. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits (Note 18)		
Defined contribution plans	\$ 14,440	\$ 14,060
Defined benefit plans	<u>10,230</u>	<u>18,230</u>
	<u>24,670</u>	<u>32,290</u>
Termination benefits	-	4,550
Labor and health insurance	37,940	36,573
Salary	592,325	556,366
Other employee benefits	<u>53,527</u>	<u>49,178</u>
	<u>683,792</u>	<u>646,667</u>
Total employee benefits expense	<u>\$ 708,462</u>	<u>\$ 678,957</u>
An analysis of employee benefits expense by function		
Operating costs	<u>\$ 409</u>	<u>\$ 632</u>
Operating expenses	<u>\$ 707,412</u>	<u>\$ 677,600</u>
Non-operating expenses	<u>\$ 641</u>	<u>\$ 725</u>

e. Employees' compensation

The Company accrued employees' compensation at the rates no less than 0.1% of net profit before income tax, and employees' compensation. The employees' compensation for the years ended December 31, 2017 and 2016, which have been approved by the Company's board of directors on March 26, 2018 and March 27, 2017, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Employees' compensation	0.10%	0.10%

Amount

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
	<u>Cash</u>	<u>Cash</u>
Employees' compensation	\$ 8,011	\$ 5,773

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

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

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

f. Gain or loss on foreign currency exchange, net

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Foreign exchange gains	\$ 86,289	\$ 119,816
Foreign exchange losses	<u>(528,009)</u>	<u>(300,644)</u>
Net loss	<u>\$ (441,720)</u>	<u>\$ (180,828)</u>

g. Gain or loss on disposal of investments, net

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Gain on disposal of investments	\$ 14,047	\$ 3,124
Loss on disposal of investments	<u>(12,102)</u>	<u>(22,568)</u>
Net profit (loss)	<u>\$ 1,945</u>	<u>\$ (19,444)</u>

21. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ 1,167,101	\$ 1,210,994
Adjustments for prior years	(1,640)	896
Deferred tax		
In respect of the current year	<u>195,460</u>	<u>(256,401)</u>
Income tax expense recognized in profit or loss	<u>\$ 1,360,921</u>	<u>\$ 955,489</u>

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

	For the Year Ended December 31	
	2017	2016
Profit before tax	<u>\$ 8,003,421</u>	<u>\$ 5,586,104</u>
Income tax expense calculated at the statutory rate (17%)	\$ 1,360,582	\$ 949,637
Adjustments of expenses in determining taxable income	2,999	6,674
Tax-exempt income	(1,020)	(1,718)
Adjustments for prior years' tax	<u>(1,640)</u>	<u>896</u>
Income tax expense recognized in profit or loss	<u>\$ 1,360,921</u>	<u>\$ 955,489</u>

In February 2018, it was announced that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by \$22,422 thousand and \$266,790 thousand, respectively, in 2018.

As the status of the 2017 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>		
In respect of the current year		
Share of other comprehensive income of subsidiary accounted for using equity method	\$ 17	\$ 11
Remeasurement on defined benefit plans	<u>(2,198)</u>	<u>3,438</u>
Recognized in other comprehensive income (loss)	<u>\$ (2,181)</u>	<u>\$ 3,449</u>

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax liabilities		
Income tax payable	<u>\$ 442,943</u>	<u>\$ 452,079</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, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporarily difference				
Defined benefit obligation	\$ 97,753	\$ (25,939)	\$ 3,438	\$ 75,252
Impairment losses	13,005	(13,005)	-	-
Provisions for warranties	20,919	2,326	-	23,245
Provisions for loss on inventory purchase commitments	20,995	203	-	21,198
Unrealized exchange loss, net	-	8,602	-	8,602
Share of other comprehensive loss of subsidiaries accounted for using equity method	<u>56</u>	<u>-</u>	<u>11</u>	<u>67</u>
	<u>\$ 152,728</u>	<u>\$ (27,813)</u>	<u>\$ 3,449</u>	<u>\$ 128,364</u>
<u>Deferred tax liabilities</u>				
Temporarily difference				
Shares of profit of subsidiaries	\$ 1,592,467	\$ (276,989)	\$ -	\$ 1,315,478
Unrealized exchange gain, net	<u>7,225</u>	<u>(7,225)</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,599,692</u>	<u>\$ (284,214)</u>	<u>\$ -</u>	<u>\$ 1,315,478</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehen- sive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporarily difference				
Defined benefit obligation	\$ 75,252	\$ (6,026)	\$ (2,198)	\$ 67,028
Provisions for warranties	23,245	2,508	-	25,753
Provisions for loss on inventory purchase commitments	21,198	(3,564)	-	17,634
Unrealized exchange loss, net	8,602	7,959	-	16,561
Share of other comprehensive loss of subsidiaries accounted for using equity method	<u>67</u>	<u>-</u>	<u>17</u>	<u>84</u>
	<u>\$ 128,364</u>	<u>\$ 877</u>	<u>\$ (2,181)</u>	<u>\$ 127,060</u>

Deferred tax liabilities

Temporarily difference				
Shares of profit of subsidiaries	<u>\$ 1,315,478</u>	<u>\$ 196,337</u>	<u>\$ -</u>	<u>\$ 1,511,815</u>

e. Integrated income tax

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Unappropriated earnings		
Generated on and after January 1, 1998	Note	<u>\$ 7,541,356</u>
Stockholder-imputed credits accounts ("ICA")	Note	<u>\$ 674,872</u>
	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016 (Actual)</u>
Creditable ratio for distribution of earnings	Note	14.92%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, no creditable ratio for distribution of earnings in 2018 is expected.

f. Income tax assessments

The tax returns through 2014 have been assessed by the tax authorities.

22. EARNINGS PER SHARE

The earnings and weighted-average number of common stock outstanding in the computation of earnings per share were as follows:

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2017	2016
Earnings used in the computation of basic and diluted earnings per share	<u>\$ 6,642,500</u>	<u>\$ 4,630,615</u>

Weighted-average Number of Common Stock Outstanding (In Thousands of Shares)

	<u>For the Year Ended December 31</u>	
	2017	2016
Weighted average number of common stock in computation of basic earnings per share	300,000	300,000
Effect of potential dilutive common stock:		
Employees' compensation	<u>22</u>	<u>38</u>
Weighted average number of common stock used in the computation of diluted earnings per share	<u>300,022</u>	<u>300,038</u>

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

23. NON-CASH TRANSACTIONS

For the years ended December 31, 2017 and 2016, the Company entered into the following non-cash investing activities:

	<u>For the Year Ended December 31</u>	
	2017	2016
<u>Investing activities affecting both cash and non-cash transactions</u>		
Increase in property, plant and equipment	\$ 261,272	\$ 326,865
Net changes of prepayment for equipment	4,309	8,784
Net changes of trade payables	<u>239,978</u>	<u>(53,877)</u>
Cash paid for acquisition of property, plant and equipment	<u>\$ 505,559</u>	<u>\$ 281,772</u>

24. OPERATING LEASE ARRANGEMENTS

The Company as Lessee

Operating leases relate to leases of office with lease terms between 6 and 20 years.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31	
	2017	2016
No later than 1 year	\$ 1,871	\$ 10,474
Later than 1 year and not later than 3 years	<u>-</u>	<u>1,871</u>
	<u>\$ 1,871</u>	<u>\$ 12,345</u>

25. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stockholders through the optimization of the debt and equity balance.

26. FINANCIAL INSTRUMENTS

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

The carrying amounts of the financial assets and financial liabilities that are not measured at fair value are approximately equal to their fair values.

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 at FVTPL</u>				
Non-derivative financial assets held for trading	<u>\$ 874,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 874,052</u>

December 31, 2016

	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Non-derivative financial assets held for trading	<u>\$ 2,275,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,275,103</u>

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

2) Valuation techniques and assumption applied for the purpose of measuring fair value

The fair value of mutual funds traded on active market is the net asset value on the balance sheet date. If there is no market price, the fair value is determined by the redemption value. The estimates and assumptions used by the Company were consistent with those that market participants would use in setting a price for the financial instrument.

c. Categories of financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 874,052	\$ 2,275,103
Loans and receivables (Note 1)	7,111,502	9,915,529
<u>Financial liabilities</u>		
Amortized cost (Note 2)	1,499,745	5,318,300

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables and other receivables.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, trade payables and part of other payables.

d. Financial risk management objectives and policies

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

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There had been no change to the Company's exposure to market risks or the manner in which these risks were managed and measured. Sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. Details of sensitivity analysis for foreign currency risk and for interest rate risk are set out in (a) and (b) below.

a) Foreign currency risk

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

Sensitivity analysis

The Company is mainly exposed to the RMB, U.S. dollar and Japanese yen.

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

the functional currency against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	RMB		U.S. Dollar		Japanese Yen	
	For the Year Ended December 31		For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016	2017	2016
Gain (loss)	\$ (193,447)	\$ (279,105)	\$ (58,047)	\$ (117,953)	\$ (4,646)	\$ (7,009)

These were mainly attributable to the exposure outstanding on RMB-, U.S. dollars- and Japanese yen-denominated cash in bank, repurchase agreement collateralized by bonds, receivables and payables, which were not hedged at the end of the reporting period.

b) Interest rate risk

The carrying amount of the Company'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
Fair value interest rate risk		
Financial assets	\$ 2,944,331	\$ 7,919,560
Financial liabilities	-	500,000
Cash flows interest rate risk		
Financial assets	3,100,825	1,348,834
Financial liabilities	-	3,130,000

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. A 25-basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2017 would increase/decrease by \$7,752 thousand, which was mainly attributable to the Company's exposure to interest rates on its demand deposits and time deposits.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2016 would decrease/increase by \$4,453 thousand, which was mainly attributable to the Company's exposure to interest rates on its demand deposits, time deposits and short-term borrowings.

2) Credit risk

The Company's concentration of credit risk of 48% and 54% in total trade receivables as of December 31, 2017 and 2016, respectively, was related to the Company's largest customer within the vehicle department and the five largest customers within the parts department.

3) Liquidity risk

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

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the available unutilized borrowings facilities were \$5,700,000 thousand and \$2,070,000 thousand, respectively.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay.

December 31, 2017

	Weighted- average Effective Interest Rate (%)	Within One Month	1 to 3 Months	3 Months to 1 Year
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	-	<u>\$ 1,382,883</u>	<u>\$ 62,984</u>	<u>\$ 53,878</u>

December 31, 2016

	Weighted- average Effective Interest Rate (%)	Within One Month	1 to 3 Months	3 Months to 1 Year
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	-	\$ 1,349,976	\$ 92,693	\$ 244,436
Floating interest rate instrument	0.89	3,132,720	-	-
Fixed interest rate instrument	1.06	<u>500,174</u>	<u>-</u>	<u>-</u>
		<u>\$ 4,982,870</u>	<u>\$ 92,693</u>	<u>\$ 244,436</u>

27. TRANSACTIONS WITH RELATED PARTIES

In addition to those disclosed in other notes, the Company had business transactions with the following related parties:

a. Related parties

Related Party	Relationship with the Company
Investors that have significant influence over the Company	
Nissan Motor Corporation ("Nissan")	Parent Company
Yulon Motor Co., Ltd. ("Yulon")	Equity-method investor of the Company
Subsidiaries	
Yi-Jan Overseas Investment Co., Ltd.	Subsidiary
Jetford, Inc.	Subsidiary of Yi-Jan Overseas Investment Co., Ltd.
Other parties	
Nissan Trading Co., Ltd.	Subsidiary of Nissan
Nissan Trading Europe Ltd.	Same as above
Nissan Trading (Thailand) Co., Ltd.	Same as above
Nissan Trading China Co., Ltd.	Same as above
Nissan Motor Egypt S.A.E.	Same as above
Nissan Import Egypt, Ltd.	Same as above
PT. Nissan Motor Indonesia ("NMI")	Same as above
Nissan Mexicana, S.A. De C. V.	Same as above
Nissan Motor (Thailand) Co., Ltd.	Same as above
PT Nissan Motor Distributor Indonesia	Same as above
Nissan North America, Inc.	Same as above
Nissan International SA	Same as above
Nissan Vietnam Co., Ltd.	Substantial related party of Nissan
Nissan Philippines Inc.	Same as above
INFINITI Motor Co., Ltd.	Same as above
Renault Nissan Automotive India Private Ltd.	Same as above
Autech Japan, Inc.	Same as above
Dongfeng Nissan Passenger Vehicle Co.	Same as above
Zhenzhou Nissan Automobile Co., Ltd.	Same as above
Allied Engineering Co., Ltd.	Same as above
Chien Tai Industry Co., Ltd.	Same as above
Taiwan Calsonic Co., Ltd.	Same as above
Taiwan Acceptance Corporation	Subsidiary of Yulon
Yueki Industrial Co., Ltd.	Same as above
Yu Pong Business Co., Ltd.	Same as above
Yushin Motor Co., Ltd.	Same as above
Yu Chang Motor Co., Ltd.	Same as above
Ka-Plus Automobile Leasing Co., Ltd.	Same as above
Yu Sing Motor Co., Ltd.	Same as above
Empower Motor Co., Ltd.	Same as above
Uni Auto Parts Co., Ltd.	Same as above
Chan Yun Technology Co., Ltd.	Same as above
Singan Co., Ltd.	Same as above
Y-teks Co., Ltd.	Same as above
Sinjang Co., Ltd.	Same as above
Luxgen Motor Co., Ltd.	Same as above
Yue Sheng Industrial Co., Ltd.	Same as above

(Continued)

Related Party	Relationship with the Company
Yulon Energy Service Co., Ltd.	Subsidiary of Yulon
Univation Motor Philippines, Inc.	Substantial related party of Yulon
Uni Calsonic Corporation	Same as above
China Ogihara Corporation	Same as above
Yuan Lon Motor Co., Ltd.	Same as above
Chen Long Co., Ltd.	Same as above
Yulon Management Co., Ltd.	Same as above
ROC Spicer Co., Ltd.	Same as above
Chi Ho Corporation	Same as above
Yu Tang Motor Co., Ltd.	Same as above
Tokio Marine Newa Insurance Co., Ltd.	Same as above
Hua-Chuang Automobile Information Technical Center Co., Ltd.	Same as above
Taiway, Ltd.	Same as above
Kian Shen Corporation	Same as above
Hui-Lian Motor Co., Ltd.	Same as above
Le-Wen Co., Ltd.	Same as above
Visionary International Consulting Co., Ltd.	Same as above
Tai Yuen Textile Co., Ltd.	Same as above
San Long Industrial Co., Ltd.	Same as above
Sin Etke Technology Co., Ltd.	Subsidiary of Hua-Chuang Automobile Information Technical Center Co., Ltd.
Singgual Technology Co., Ltd.	Subsidiary of Singan Co., Ltd.
Hsiang Shou Enterprise Co., Ltd.	Same as above
Hong Shou Culture Enterprise Co., Ltd.	Same as above
Shinshin Credit Corporation	Subsidiary of Taiwan Acceptance Corporation
Yu Pool Co., Ltd.	Subsidiary of Yushin Motor Co., Ltd.
Yu-Jan Co., Ltd.	Subsidiary of Yu Sing Motor Co., Ltd.
Tang Li Enterprise Co., Ltd.	Subsidiary of Yu Tang Motor Co., Ltd.
Ding Long Motor Co., Ltd.	Subsidiary of Chen Long Co., Ltd.
Lian Cheng Motor Co., Ltd.	Same as above
CL Skylite Trading Co., Ltd.	Sub-subsubsidiary of Chen Long Co., Ltd.
Yuan Jyh Motor Co., Ltd.	Subsidiary of Yuan Lon Motor Co., Ltd.
Diamond Leasing Service Co., Ltd.	Subsidiary of Ka-Plus Automobile Leasing Co., Ltd.
Hsieh Kuan Manpower Service Co., Ltd.	Subsidiary of Diamond Leasing Service Co., Ltd.
Tan Wang Co., Ltd.	Subsidiary of Yu Chang Motor Co., Ltd.
Carnival Textile Industrial Corporation	Substantial related party of the Company
Y.M. Hi-Tech Industry Ltd.	Subsidiary of China Ogihara Corporation
DFS Industrial Group Co., Ltd.	Substantial related party of Dongfeng Nissan Passenger Vehicle Co.
Luxgen Taoyuan Motor Co., Ltd.	Subsidiary of Luxgen Motor Co., Ltd.
Luxgen Taichung Motor Co., Ltd.	Same as above
Luxgen Kaohsiung Motor Co., Ltd.	Same as above
ROC-Keeper Industrial Ltd.	Subsidiary of ROC Spicer Co., Ltd.

(Concluded)

b. Relate party transaction details

Balances and transactions between the Company and related parties are based on agreements. Details of transactions between the Company and related parties were disclosed below:

1) Operating transactions

	For the Year Ended December 31	
	2017	2016
<u>Sales</u>		
Taiwan Acceptance Corporation	\$ 29,166,734	\$ 30,841,817
Investors that have significant influence	20,736	40,202
Other parties	<u>3,418,576</u>	<u>3,383,978</u>
	<u>\$ 32,606,046</u>	<u>\$ 34,265,997</u>
<u>Service revenue</u>		
Autech Japan, Inc.	\$ 21,628	\$ -
Nissan	<u>10,923</u>	<u>6,173</u>
	<u>\$ 32,551</u>	<u>\$ 6,173</u>

The Company designs and performs R&D of cars mainly for Autech Japan, Inc. Service revenue is recognized according to the related contracts.

	For the Year Ended December 31	
	2017	2016
<u>Other operating revenue</u>		
Yulon	\$ 31,480	\$ 12,392
Other parties	<u>59,618</u>	<u>41,974</u>
	<u>\$ 91,098</u>	<u>\$ 54,366</u>

Other operating revenue mainly arose from selling steel plates, steel and aluminum parts.

	For the Year Ended December 31	
	2017	2016
<u>Operating costs - purchases</u>		
Yulon	\$ 25,632,031	\$ 28,288,848
Investors that have significant influence	24,148	79,553
Other parties	<u>34,018</u>	<u>104,378</u>
	<u>\$ 25,690,197</u>	<u>\$ 28,472,779</u>
<u>Operating costs - TCA</u>		
Nissan	\$ 463,879	\$ 526,172
Autech Japan, Inc.	<u>54,052</u>	<u>13,012</u>
	<u>\$ 517,931</u>	<u>\$ 539,184</u>

The Company's TCA is the payment for technical cooperation agreements.

	For the Year Ended December 31	
	2017	2016
<u>Operating expenses - rental</u>		
Yulon	\$ 14,892	\$ 15,073
Ka-Plus Automobile Leasing Co., Ltd.	9,041	8,284
Other parties	<u>4,767</u>	<u>3,267</u>
	<u>\$ 28,700</u>	<u>\$ 26,624</u>

The Company's rental expenses paid monthly are primarily comprised of customer service system, building property, car testing expenses, cars and driving service for its executives.

	For the Year Ended December 31	
	2017	2016
<u>Selling and marketing expenses</u>		
Yu Chang Motor Co., Ltd.	\$ 350,981	\$ 306,415
Investors that have significant influence	15,333	13,357
Other parties	<u>1,788,563</u>	<u>1,530,268</u>
	<u>\$ 2,154,877</u>	<u>\$ 1,850,040</u>

General and administrative expenses

Yulon Management Co., Ltd.	\$ 174,773	\$ 174,997
Investors that have significant influence	21,336	27,535
Other parties	<u>8,688</u>	<u>6,228</u>
	<u>\$ 204,797</u>	<u>\$ 208,760</u>

Research and development expenses

Investors that have significant influence	\$ 60,693	\$ 31,956
Other parties	<u>27,720</u>	<u>22,862</u>
	<u>\$ 88,413</u>	<u>\$ 54,818</u>

Selling and marketing expenses are payments to other parties for advertisement and promotion.

General and administrative expenses are payments to Yulon Management Co., Ltd. for consulting, labor dispatch and IT services.

Research and development expenses are payments for sample products, trial fee, and System.

Purchases of property, plant and equipment from related parties are detailed as follows:

	For the Year Ended December 31	
	2017	2016
Investors that have significant influence	\$ 2,673	\$ -
Other parties	<u>10,767</u>	<u>8,417</u>
	<u>\$ 13,440</u>	<u>\$ 8,417</u>

The Company sold property, plant and equipment from related parties are detailed as follows:

	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
Investors that have significant influence	<u>\$ -</u>	<u>\$ 9,530</u>	<u>\$ -</u>	<u>\$ 1,721</u>

2) Non-operating transactions

	For the Year Ended December 31	
	2017	2016
<u>Overseas business expenses</u>		
Yulon Management Co., Ltd.	\$ 2,224	\$ 2,474
Other parties	<u>479</u>	<u>1,293</u>
	<u>\$ 2,703</u>	<u>\$ 3,767</u>
<u>Other losses</u>		
Investors that have significant influence	<u>\$ 46</u>	<u>\$ 213</u>

3) Receivables from related parties

	December 31	
	2017	2016
<u>Notes receivable</u>		
Yushin Motor Co., Ltd.	\$ 1,235	\$ 3,847
Yuan Lon Motor Co., Ltd.	<u>377</u>	<u>327</u>
	<u>\$ 1,612</u>	<u>\$ 4,174</u>
<u>Trade receivables</u>		
Taiwan Acceptance Corporation	\$ 412,802	\$ 272,888
Yulon	382,335	157,046
Investors that have significant influence	8,528	9,256
Subsidiary	4,414	6,844
Other parties	<u>94,060</u>	<u>99,064</u>
	<u>\$ 902,139</u>	<u>\$ 545,098</u>

Trade receivables from Yulon are mainly commodity tax paid by the Company on behalf of Yulon.

Trade receivables from related parties are unsecured. For the years ended December 31, 2017 and 2016, no impairment loss was recognized for trade receivables from related parties.

4) Payables to related parties

	December 31	
	2017	2016
<u>Notes payable</u>		
Investors that have significant influence	\$ <u>-</u>	\$ <u>1,536</u>
<u>Trade payables</u>		
Yulon	\$ 419,184	\$ 343,671
Nissan	84,896	151,755
Other parties	<u>371,384</u>	<u>587,750</u>
	<u>\$ 875,464</u>	<u>\$ 1,083,176</u>

Trade payables from related parties are unsecured.

5) Refundable deposits

	December 31	
	2017	2016
Yulon	\$ 96,770	\$ 373,496
Other parties	<u>800</u>	<u>800</u>
	<u>\$ 97,570</u>	<u>\$ 374,296</u>

Refundable deposits are mainly for materials the Company paid to Yulon.

6) Prepayments

	December 31	
	2017	2016
Yulon	<u>\$ 10,866</u>	<u>\$ 11,995</u>

Prepayments to Yulon are for office rental.

7) Receipts in advance

	December 31	
	2017	2016
Autech Japan, Inc.	<u>\$ 113,331</u>	<u>\$ 52,918</u>

The Company designs and develops car models for Autech Japan, Inc., and according to the related contracts to receive payments in advance. Those service revenue receipts in advance are recognized as current and non-current liabilities according to the timing of revenue recognition.

c. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 44,525	\$ 38,664
Post-employment benefits	<u>2,205</u>	<u>1,931</u>
	<u>\$ 46,730</u>	<u>\$ 40,595</u>

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

d. Other transactions with related parties

1) The Company sold trade receivables to Taiwan Acceptance Corporation

The Company sold to Taiwan Acceptance Corporation trade receivables which amounted to \$2,032,306 thousand and \$1,963,839 thousand for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Company had received \$1,997,141 thousand and \$1,928,674 thousand, respectively. Based on the related contract, the amount of receivables sold is limited to the amount of pledges from the original debtor to Taiwan Acceptance Corporation. The Company's interest intervals of the rates for trade receivable sold to Taiwan Acceptance Corporation for the years ended December 31, 2017 and 2016 were 2.32%-2.33% and 2.30%-2.37%, respectively; and the interest expenses recognized were \$1,019 thousand and \$1,034 thousand, respectively.

2) The Company signed a molds contract with Diamond Leasing Service Co., Ltd.

The molds contract is valid from the date of the contract to the end of production of the car model. The Company re-signed the molds contract in June 2016. The revised contract amount is \$1,021,491 thousand (excluding of tax), which was originally \$1,080,206 thousand (excluding of tax). The total newly-signed contract amount in 2016 November and December was \$262,139 thousand (excluding of tax), and the installment payments will be disbursed according to the progress under the contract schedule. As of December 31, 2017, the Company had already paid \$1,250,544 thousand (recognized as property, plant and equipment). Besides, within the contract period, the Company should pay to Diamond Leasing Service Co., Ltd., before the end of January of every year, the amount of \$2.6 for every ten thousand dollars of the accumulated amounts paid for molds in the prior year.

3) The Company signed a molds contract with Shinshin Credit Corporation

The molds contract is valid from the date of the contract to the end of production of the car model. The contract amount is \$56,828 thousand (excluding of tax). As of December 31, 2017, the Company had already paid the contract amount in full (recognized as property, plant and equipment). Besides, within the contract period, the Company should pay to Shinshin Credit Corporation, before the end of January of every year, the amount of \$2.6 for every ten thousand dollars of the accumulated amounts paid for molds in the prior year.

4) The Company signed a molds contract with Sinjiang Co., Ltd.

The molds contract is valid from the date of the contract to the end of production of the car model. The contract amount is \$56,176 thousand (excluding of tax). As of December 31, 2017, the Company had already paid the contract amount in full (recognized as property, plant and equipment). Besides, within the contract period, the Company should pay to Sinjiang Co., Ltd.,

before the end of January of every year, the amount of \$2.6 for every ten thousand dollars of the accumulated amounts paid for molds in the prior year.

- 5) The Company signed a molds contract with Chan Yun Technology Co., Ltd.

The molds contract is valid from the date of the contract to the end of production of the car model. The contract amount is \$27,744 thousand (excluding of tax). As of December 31, 2017, the Company had already paid the contract amount in full (recognized as property, plant and equipment). Besides, within the contract period, the Company should pay to Chan Yun Technology Co., Ltd., before the end of January of every year, the amount of \$2.6 for every ten thousand dollars of the accumulated amounts paid for molds in the prior year.

28. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED COMMITMENTS

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

- a. The Company re-signed a manufacturing contract with Yulon, effective on or after May 1, 2015, for 5 years. This contract, for which the first expiry date was on April 30, 2020, is automatically extended annually unless either party issues a termination notice at least three months before expiry. The contract states that the Company authorizes Yulon to manufacture Nissan automobiles and parts, and the Company is responsible for the subsequent development of new automobile parts. The manufacturing volume of Yulon under the contract should correspond to the Company's sales projection for the year. In addition, the Company has authorized Yulon as the original equipment manufacturer ("OEM") of automobile parts and after-sales service.

The Company is responsible for developing new car models, refining designs, and providing the sales projection to Yulon. Yulon is responsible for transforming the sales projections into manufacturing plans, making the related materials orders and purchases, providing product quality assurance, delivering cars, and shouldering warranty expenses due to any defects in products made by Yulon.

- b. The Company has a contract with Taiwan Acceptance Corporation for sale and purchase of vehicles. Besides, Taiwan Acceptance Corporation separately signed with dealers contracts for display of vehicles. If any dealer violates the display contract, resulting in the need for Taiwan Acceptance Corporation to recover the display vehicles, the Company must assist in the settlement or buy-back the vehicles at the original price. From the date of signing the sale and purchase contract to December 31, 2017, no buy-back of vehicles has occurred.
- c. Unrecognized commitments

	December 31	
	2017	2016
Acquisition of property, plant, and equipment	<u>\$ 180,059</u>	<u>\$ 3,518</u>

29. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company'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:

(In Thousands of New Taiwan Dollars and Foreign Currency)

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
RMB	\$ 847,522	4.5650 (RMB:NTD)	\$ 3,868,938
USD	39,010	29.760 (USD:NTD)	1,160,938
JPY	351,864	0.2642 (JPY:NTD)	<u>92,962</u>
			<u>\$ 5,122,838</u>
Non-monetary items			
USD	538,417	29.760 (USD:NTD)	<u>\$ 16,023,303</u>
<u>Financial liabilities</u>			
Monetary items			
JPY	179	0.2642 (JPY:NTD)	<u>\$ 47</u>

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
RMB	\$ 1,209,033	4.6170 (RMB:NTD)	\$ 5,582,106
USD	73,149	32.250 (USD:NTD)	2,359,058
JPY	508,852	0.2756 (JPY:NTD)	<u>140,239</u>
			<u>\$ 8,081,403</u>
Non-monetary items			
USD	473,767	32.250 (USD:NTD)	<u>\$ 15,281,346</u>
<u>Financial liabilities</u>			
Monetary items			
JPY	204	0.2756 (JPY:NTD)	<u>\$ 56</u>

The significant realized and unrealized foreign exchange gains (losses) were as follows:

For the Year Ended December 31				
2017			2016	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
RMB	4.5070 (RMB:NTD)	\$ (270,850)	4.8490 (RMB:NTD)	\$ 61,981
USD	30.432 (USD:NTD)	(175,577)	32.263 (USD:NTD)	(227,580)
JPY	0.2713 (JPY:NTD)	<u>4,707</u>	0.2972 (JPY:NTD)	<u>(15,229)</u>
		<u>\$ (441,720)</u>		<u>\$ (180,828)</u>

30. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: None
- 3) Marketable securities held (excluding investment in subsidiaries and associates): Table 1 (attached)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Table 2 (attached)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
- 9) Trading in derivative instruments: None
- 10) Information on investees: Table 5 (attached)

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income or loss, investment income or loss, carrying amount of the investment at the end of the period, repatriated investment income, and limit on the amount of investment in the mainland China area: Table 6 (attached)

- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third area, and their prices, payment terms, and unrealized gains or losses: None
- a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

YULON NISSAN MOTOR COMPANY, LTD.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

Investor	Securities Type and Name	Relationship with the Investor	Financial Statement Account	December 31, 2017				Note
				Stocks (Thousands)	Carrying Amount	Percentage of Ownership	Market Value or Net Asset Value (Note)	
Yulon Nissan Motor Company, Ltd.	Beneficiary certificates	-	Financial assets at fair value through profit or loss	14,685	\$ 200,082	-	\$ 200,082	
	PineBridge Taiwan Money Markey Found	-	Financial assets at fair value through profit or loss	16,808	200,046	-	200,046	
	The RSIT Enhanced Money Market	-	Financial assets at fair value through profit or loss	6,781	110,002	-	110,002	
	Nomura money market fund	-	Financial assets at fair value through profit or loss	6,790	100,003	-	100,003	
	Jih Sun money market fund	-	Financial assets at fair value through profit or loss	7,223	100,002	-	100,002	
	StuoPac TWD money market fund	-	Financial assets at fair value through profit or loss	7,081	100,002	-	100,002	
	Taishin Ta-Chong money market fund	-	Financial assets at fair value through profit or loss	2,713	31,246	-	31,246	
	PineBridge Emerging Market Asia-Pacific Strategic Bond	-	Financial assets at fair value through profit or loss					
	Fuh Hwa Global Fixed Income Fund of Fund	-	Financial assets at fair value through profit or loss	1,347	20,189	-	20,189	
	Nomura Global Equity Fund	-	Financial assets at fair value through profit or loss	800	12,480	-	12,480	

Note: The fair value of the financial asset at fair value through profit or loss is calculated based on the asset's net value as of December 31, 2017.

YULON NISSAN MOTOR COMPANY, LTD.

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal		Ending Balance	
					Stocks (Thousands)	Amount	Stocks (Thousands)	Amount	Stocks (Thousands)	Amount	Stocks (Thousands)	Amount (Note)
Yulon Nissan Motor Company, Ltd.	Beneficiary certificates	Financial assets at fair value	-	-	33,137	\$ 500,000	-	\$ -	33,137	\$ 503,305	-	\$ -
	FSTC Taiwan Money Market Fund	through profit or loss	-	-	-	-	-	-	-	-	-	-
	Mega Diamond Money Market	Financial assets at fair value	-	-	24,249	300,000	-	-	24,249	301,887	-	-
	Allianz Global Investors	through profit or loss	-	-	24,234	300,000	-	-	24,234	301,494	-	-
	Taiwan Money Market Fund	Financial assets at fair value	-	-	22,452	300,000	-	-	22,452	301,008	-	-
	Taishin 1699 Money Market	through profit or loss	-	-	8,461	100,000	33,652	400,000	25,305	300,749	16,808	200,000
	The RSTI Enhanced Money Market	Financial assets at fair value	-	-	-	-	35,467	500,000	28,386	400,414	7,081	100,000
	Taishin Ta-Chong Money Market Fund	through profit or loss	-	-	-	-	27,202	400,000	20,412	300,243	6,790	100,000
	Jin Sun Money Market Fund	Financial assets at fair value	-	-	-	-	-	-	24,252	300,070	-	-
	Cathay Taiwan Money Market Fund	through profit or loss	-	-	-	-	-	-	-	-	-	-

Note: Shown at their original investment amount.

YULON NISSAN MOTOR COMPANY, LTD.

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction (Note 1)		Note/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total (Note 2)	
Yulon Nissan Motor Company, Ltd.	Yulon	Equity-method investor of the Company	Purchase	\$ 25,632,031	99	4 days after sales for parts	\$	-	\$ (419,184)	(45)	-
	Taiwan Acceptance Corporation	Subsidiary of Yulon	Sale	29,166,734	88	3 days after sales for vehicles		-	412,802	44	-
	Yu Sing Motor Co., Ltd.	Subsidiary of Yulon	Sale	439,382	1	Same as above		-	7,591	1	-
	Yuan Lon Motor Co., Ltd.	Substantial related party of Yulon	Sale	438,021	1	14 days after sales for parts		-	12,944	1	-
	Yu Chang Motor Co., Ltd.	Subsidiary of Yulon	Sale	421,410	1	Immediate payment for vehicles		-	9,814	1	-
	Hui-Lian Motor Co., Ltd.	Substantial related party of Yulon	Sale	353,849	1	14 days after sales for parts		-	1,228	-	-
	Empower Motor Co., Ltd.	Subsidiary of Yulon	Sale	341,818	1	Same as above		-	7,535	1	-
	Chen Long Co., Ltd.	Substantial related party of Yulon	Sale	317,221	1	Immediate payment for vehicles		-	2,805	-	-
	Yu Tang Motor Co., Ltd.	Substantial related party of Yulon	Sale	308,267	1	Same as above		-	1,295	-	-
	Yushin Motor Co., Ltd.	Subsidiary of Yulon	Sale	254,372	1	14 days after sales for parts		-	1,836	-	-
	Tan Wang Co., Ltd.	Subsidiary of Yu Chang Motor Co., Ltd.	Sale	101,916	-	Immediate payment for vehicles		-	5,133	1	-

Note 1: Transaction terms are based on agreements.

Note 2: Balances shown here are based on the carrying amount of the Company.

YULON NISSAN MOTOR COMPANY, LTD.

TRADE 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	Nature of Relationship	Ending Balance	Turnover Rate (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Yulon Nissan Motor Company, Ltd.	Taiwan Acceptance Corporation Yulon	Subsidiary of Yulon Equity-method investor of the Company	Trade receivables \$ 412,802 Trade receivables 382,335	85.07 Note 2	\$ - -	- -	\$ 412,802 342,421	\$ - -

Note 1: The turnover rate was based on the carrying amount of the Company.

Note 2: Trade receivables from Yulon are mainly commodity tax paid by the Company on behalf of Yulon, not arose from sales; therefore, turnover rate is not calculated.

YULON NISSAN MOTOR COMPANY, LTD.

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars and U.S. Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2017			Net Income of the Investee	Share of Profit	Note
				December 31, 2017	December 31, 2016	Stocks (Thousands)	%	Carrying Amount			
Yulon Nissan Motor Company, Ltd.	Yi-Jan Overseas Investment Co., Ltd.	Cayman Islands	Investment	\$ 1,847,983 (US\$ 57,371)	\$ 1,847,983 (US\$ 57,371)	84,987	100.00	\$ 16,023,303	\$ 6,225,205	\$ 6,225,205	Note
Yi-Jan Overseas Investment Co., Ltd.	Jelford Inc.	British Virgin Islands	Investment	US\$ 57,171	US\$ 57,171	71,772	100.00	US\$ 538,223	US\$ 204,570	US\$ 240,570	Note

Note: The carrying amount and related shares of profit of the equity investment were calculated based on the audited financial statements and percentage of ownership.

TABLE 6

YULON NISSAN MOTOR COMPANY, LTD.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, U.S. Dollars and RMB)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment (e.g., Direct or Indirect)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	% Ownership of Direct or Indirect Investment	Net Income of the Investee	Investment Gain (Note 2)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outflow	Inflow						
Asolus Xiangyang Automobile Co., Ltd.	Developing and manufacturing of parts and vehicles and related services	\$ 3,581,037 (RMB 826,000)	Note 1	\$ 716,856 (US\$ 21,700)	-	\$ -	\$ 716,856 (US\$ 21,700)	16.55	\$ 2,792,746 (US\$ 91,770)	\$ 454,997 (US\$ 14,951)	\$ 1,426,870 (US\$ 47,946)	\$ 2,971,576 (US\$ 94,087)
Asolus Automobile Co., Ltd.	Consulting	761,964 (RMB 194,400)	Note 1	533,109 (US\$ 16,812)	-	-	533,109 (US\$ 16,812)	33.12	17,205 (US\$ 565)	5,698 (US\$ 187)	729,383 (US\$ 24,509)	7,478,304 (US\$ 237,559)
Guangzhou Aeolus Automobile Co., Ltd.	Developing and manufacturing of parts and vehicles and related services	8,969,930 (RMB2,200,000)	Note 1	537,199 (US\$ 16,941)	-	-	537,199 (US\$ 16,941)	40.00	13,798,035 (US\$ 453,405)	5,519,214 (US\$ 181,362)	12,375,179 (US\$ 415,833)	24,606,052 (US\$ 788,646)
Shenzhen Lan You Technology Co., Ltd.	Developing, manufacturing and selling of computer software and hardware and computer technology consulting	57,450 (RMB 15,000)	Note 1	35,674 (US\$ 1,125)	-	-	35,674 (US\$ 1,125)	45.00	188,861 (US\$ 6,206)	84,987 (US\$ 2,793)	719,927 (US\$ 24,191)	-
Dong Feng Yulon Used Cars Co., Ltd. (Note 4)	Valuation, purchase, renovation, rental, selling of used cars and training	38,300 (RMB 10,000)	Note 1	18,804 (US\$ 593)	-	-	18,804 (US\$ 593)	49.00	12,942 (US\$ 425)	6,342 (US\$ 208)	(6,146) (US\$ -207)	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
\$1,841,642 (US\$57,171)	\$1,917,100 (US\$59,660)	\$12,716,774

Note 1: The Company indirectly owns these investees through Jefford Inc., an investment company registered in a third region.

Note 2: The carrying amount and related investment income of the equity investment were calculated based on the audited financial statements and percentage of ownership.

Note 3: The upper limit was calculated in accordance with the "Regulation Governing the Approval of Investment or Technical Cooperation in Mainland China" issued by the Investment Commission under the Ministry of Economic Affairs on August 22, 2008.

Note 4: The Company's share of losses exceeds its interest in Dong Feng Yulon Used Cars Co., Ltd. The Company recognized additional loss on constructive future obligations to settle Dong Feng Yulon Used Cars Co., Ltd.