

# **Sheng Yu Steel Co., Ltd. and Subsidiaries**

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

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and the Shareholders  
Sheng Yu Steel Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated financial statements of Sheng Yu Steel Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the audit report issued by other independent auditors (refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission ("FSC") of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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 and the report of other auditors are sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

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

#### Impairment of investments accounted for using equity method

Yodogawa Shengyu (Hefei) High Tech Steel Co., Ltd (YSS) is an investee in which the investment accounted for using equity method amounted to NT\$493,978 thousand, representing 5% of the Group's total assets as of December 31, 2017, as disclosed in Note 13 to the consolidated financial statements. The recoverability of the investment is dependent on the future profitability. Since the construction industry in mainland China and the steel market conditions were unstable, YSS's turnover was far below its budget, We are continuously concerned

about if the carrying value of assets has been impaired and impairment test.

We have obtained a copy of an impairment test report from the Company's management and evaluated the reasonableness of the assumptions used in the impairment model, including cash flow projections and net realizable value, and we assessed the result of the entire impairment test applied with reference to the industry's external condition.

#### Inventory valuation

As of December 31, 2017, the carrying value of inventory held by the Group was NT\$2,431,534 thousand, representing 23% of the Group's total assets, as disclosed in Note 4 to the consolidated financial statements. Assessment of net realizable value of inventory is an area of significant accounting estimation.

We focused on the year-end inventory to evaluate the reasonableness of net realizable value. The audit procedures we performed included the following:

1. We tested the completeness of the year-end inventory valuation.
2. We evaluated the appropriateness of the method of calculating year-end inventory provision and we re-performed the calculation of such provision.
3. We evaluated the underlying assumptions used in the calculation to supporting documentation, and re-performed the calculation to check the amounts.

#### **Other Matter**

We did not audit the financial statements as of and for the year ended December 31, 2016 of YSS, which was used as basis of the investment accounted for using equity method. YSS's financial statements had been audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included and the information disclosed for YSS, is based solely on the report of the other auditors. The investment in YSS accounted for using equity method amounted to NT\$546,821 thousand, representing 5% of the Group's total assets as of December 31, 2016. The investment loss recognized from YSS amounted to NT\$149,455 thousand, representing 9% of the Group's profit before income tax, and the other comprehensive loss amounted to NT\$32,139 thousand, representing 23% of the Group's other comprehensive income for the year ended December 31, 2016. These amounts were based on the investee's audited financial statements for the same reporting period.

We have also audited the standalone financial statements of Sheng Yu Steel Co., Ltd. as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

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

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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 14, 2018

#### Notice to Readers

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

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

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

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

ASSETS	2017		2016		LIABILITIES AND EQUITY	2017		2016	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,198,431	21	\$ 4,163,901	38	Short-term borrowings (Note 16)	\$ 144,942	1	\$ 229,940	2
Notes receivable (Note 8)	1,814	-	1,980	-	Notes payable (Note 17)	126	-	464	-
Trade receivables (Note 8)	739,911	7	883,957	8	Trade payables (Note 17)	276,691	3	273,077	3
Trade receivables from related parties (Notes 8 and 28)	7,219	-	14,552	-	Trade payables to related parties (Note 28)	67,962	1	93,192	1
Amounts due from customers for construction contracts (Notes 4 and 10)	12,806	-	16,019	-	Amounts due to customers for construction contracts (Notes 4 and 10)	2,412	-	18,153	-
Other receivables (Note 8)	65,591	1	40,214	-	Other payables (Notes 18 and 28)	361,915	3	433,415	4
Current tax assets (Note 23)	54	-	302	-	Current tax liabilities (Note 23)	71,473	1	111,860	1
Inventories (Notes 4 and 11)	2,431,534	23	1,491,716	14	Receipts in advance	79,854	1	38,449	-
Prepayments for purchase	134,291	1	107,133	1	Other current liabilities (Note 10)	<u>6,934</u>	<u>-</u>	<u>5,765</u>	<u>-</u>
Other financial assets - current (Notes 9 and 29)	1,149,979	11	370,375	4					
Other current assets	<u>22,081</u>	<u>-</u>	<u>6,932</u>	<u>-</u>	Total current liabilities	<u>1,012,309</u>	<u>10</u>	<u>1,204,315</u>	<u>11</u>
Total current assets	<u>6,763,711</u>	<u>64</u>	<u>7,097,081</u>	<u>65</u>	NON-CURRENT LIABILITIES				
NON-CURRENT ASSETS					Provisions (Note 10)	4,658	-	2,336	-
Available-for-sale financial assets - non-current (Notes 4 and 7)	32,928	-	36,491	1	Deferred tax liabilities (Notes 4 and 23)	55,088	-	56,614	-
Investments accounted for using equity method (Notes 4,5 and 13)	508,870	5	563,569	5	Net defined benefit liabilities (Notes 4, 5 and 19)	286,854	3	510,667	5
Property, plant and equipment (Notes 4, 5 and 14)	2,613,946	25	2,617,024	24	Guarantee deposit	<u>515</u>	<u>-</u>	<u>515</u>	<u>-</u>
Investment properties (Notes 4, 5 and 15)	315,877	3	324,218	3	Total non-current liabilities	<u>347,115</u>	<u>3</u>	<u>570,132</u>	<u>5</u>
Computer software (Note 4)	763	-	351	-	Total liabilities	<u>1,359,424</u>	<u>13</u>	<u>1,774,447</u>	<u>16</u>
Deferred tax assets (Notes 4, 5 and 23)	100,440	1	140,951	1	EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 13 and 20)				
Prepayments for equipment	142,372	2	80,926	1	Ordinary shares	<u>3,211,800</u>	<u>30</u>	<u>3,211,800</u>	<u>30</u>
Refundable deposits	2,755	-	2,783	-	Capital surplus	<u>1,557,364</u>	<u>15</u>	<u>1,557,364</u>	<u>14</u>
Other financial assets - non-current (Notes 9 and 29)	8,000	-	23,000	-	Retained earnings				
Other non-current assets	<u>2,101</u>	<u>-</u>	<u>2,615</u>	<u>-</u>	Legal reserve	1,544,341	15	1,417,328	13
Total non-current assets	<u>3,728,052</u>	<u>36</u>	<u>3,791,928</u>	<u>35</u>	Unappropriated earnings	<u>2,739,795</u>	<u>26</u>	<u>2,863,507</u>	<u>26</u>
					Total retained earnings	<u>4,284,136</u>	<u>41</u>	<u>4,280,835</u>	<u>39</u>
					Other equity	<u>13,836</u>	<u>-</u>	<u>21,051</u>	<u>-</u>
					Total equity attributable to owners of the Company	9,067,136	86	9,071,050	83
					NON-CONTROLLING INTERESTS (Note 20)	<u>65,203</u>	<u>1</u>	<u>43,512</u>	<u>1</u>
					Total equity	<u>9,132,339</u>	<u>87</u>	<u>9,114,562</u>	<u>84</u>
TOTAL	<u>\$ 10,491,763</u>	<u>100</u>	<u>\$ 10,889,009</u>	<u>100</u>	TOTAL	<u>\$ 10,491,763</u>	<u>100</u>	<u>\$ 10,889,009</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 14, 2018)

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED 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 REVENUES (Notes 4, 21 and 28)	\$ 13,769,042	100	\$ 12,834,115	100
OPERATING COSTS (Notes 11, 19, 22 and 28)	<u>12,017,670</u>	<u>87</u>	<u>10,421,569</u>	<u>81</u>
GROSS PROFIT	<u>1,751,372</u>	<u>13</u>	<u>2,412,546</u>	<u>19</u>
OPERATING EXPENSES (Notes 19, 22 and 28)				
Selling and marketing expenses	398,749	3	320,506	3
General and administrative expenses	252,010	2	268,919	2
Research and development expenses	<u>101,162</u>	<u>1</u>	<u>100,297</u>	<u>1</u>
Total operating expenses	<u>751,921</u>	<u>6</u>	<u>689,722</u>	<u>6</u>
PROFIT FROM OPERATIONS	<u>999,451</u>	<u>7</u>	<u>1,722,824</u>	<u>13</u>
NON-OPERATING INCOME AND EXPENSES (Note 22)				
Other income	25,838	-	16,414	-
Other gains and losses	(27,908)	-	(2,981)	-
Finance costs	(5,102)	-	(4,810)	-
Share of the net loss of associates	<u>(46,208)</u>	<u>-</u>	<u>(145,716)</u>	<u>(1)</u>
Net non-operating expenses	<u>(53,380)</u>	<u>-</u>	<u>(137,093)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	946,071	7	1,585,731	12
INCOME TAX EXPENSE (Notes 4, 5 and 23)	<u>197,092</u>	<u>1</u>	<u>296,313</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>748,979</u>	<u>6</u>	<u>1,289,418</u>	<u>10</u>
OTHER COMPREHENSIVE INCOME (Notes 19, 20 and 23)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	62,937	-	(110,038)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss	(10,699)	-	18,707	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(445)	-	(48,000)	-

(Continued)

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED 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	%
Unrealized loss on available-for-sale financial assets	\$ (3,563)	-	\$ (7,780)	-
Income tax relating to items that may be classified subsequently to profit or loss	<u>761</u>	<u>-</u>	<u>7,222</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>48,991</u>	<u>-</u>	<u>(139,889)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 797,970</u>	<u>6</u>	<u>\$ 1,149,529</u>	<u>9</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 743,605		\$ 1,270,132	
Non-controlling interests	<u>5,374</u>		<u>19,286</u>	
	<u>\$ 748,979</u>		<u>\$ 1,289,418</u>	
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 788,239		\$ 1,135,516	
Non-controlling interests	<u>9,731</u>		<u>14,013</u>	
	<u>\$ 797,970</u>		<u>\$ 1,149,529</u>	
EARNINGS PER SHARE (Note 24)				
Basic	<u>\$ 2.32</u>		<u>\$ 3.96</u>	
Diluted	<u>\$ 2.31</u>		<u>\$ 3.95</u>	

(Concluded)

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

(With Deloitte & Touche auditors' report dated March 14, 2018)



# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Company										
						Other Equity					
	Ordinary Capital	Capital Surplus	Legal Reserve	Retained Earnings Unappropriated Earnings	Subtotal	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-For- Sale Financial Assets	Subtotal	Total	Non-Controlling Interests	Total Equity
BALANCE, JANUARY 1, 2016	\$ 3,211,800	\$ 992,084	\$ 1,417,328	\$ 2,005,154	\$ 3,422,482	\$ 52,207	\$ 12,861	\$ 65,068	\$ 7,691,434	\$ 29,499	\$ 7,720,933
Appropriation of 2015 earnings (Note 20)											
Cash dividends distributed by the Company	-	-	-	(321,180)	(321,180)	-	-	-	(321,180)	-	(321,180)
Change in capital surplus from investments in associate accounted for using equity method (Note 13)	-	565,280	-	-	-	-	-	-	565,280	-	565,280
Net profit for the year ended December 31, 2016	-	-	-	1,270,132	1,270,132	-	-	-	1,270,132	19,286	1,289,418
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	(90,599)	(90,599)	(36,237)	(7,780)	(44,017)	(134,616)	(5,273)	(139,889)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	1,179,533	1,179,533	(36,237)	(7,780)	(44,017)	1,135,516	14,013	1,149,529
BALANCE, DECEMBER 31, 2016	3,211,800	1,557,364	1,417,328	2,863,507	4,280,835	15,970	5,081	21,051	9,071,050	43,512	9,114,562
Appropriation of 2016 earnings (Note 20)											
Legal reserve	-	-	127,013	(127,013)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	(786,891)	(786,891)	-	-	-	(786,891)	-	(786,891)
Net profit for the year ended December 31, 2017	-	-	-	743,605	743,605	-	-	-	743,605	5,374	748,979
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	51,849	51,849	(3,652)	(3,563)	(7,215)	44,634	4,357	48,991
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	795,454	795,454	(3,652)	(3,563)	(7,215)	788,239	9,731	797,970
Changes in percentage of ownership interests in subsidiaries (Note 20)	-	-	-	(5,262)	(5,262)	-	-	-	(5,262)	5,262	-
Changes of non-controlling interests	-	-	-	-	-	-	-	-	-	6,698	6,698
BALANCE, DECEMBER 31, 2017	\$ 3,211,800	\$ 1,557,364	\$ 1,544,341	\$ 2,739,795	\$ 4,284,136	\$ 12,318	\$ 1,518	\$ 13,836	\$ 9,067,136	\$ 65,203	\$ 9,132,339

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

(With Deloitte & Touche auditors' report dated March 14, 2018)

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

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

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 946,071	\$ 1,585,731
Adjustments for:		
Depreciation expense	268,025	295,427
Amortization expense	488	1,041
Interest expense	5,102	4,810
Interest income	(24,117)	(15,913)
Dividend income	(379)	(376)
Share of the net loss of associate accounted for using equity method	46,208	145,716
Loss on disposal of property, plant and equipment-net	5,514	3,443
Provision for loss on inventories	17,862	542
Others	-	1
Changes in operating assets and liabilities		
Notes receivable	166	(970)
Trade receivables	144,046	(382,208)
Trade receivables from related parties	7,333	20,136
Amounts due from customers for construction contracts	3,213	186
Other receivables	(23,704)	(11,110)
Inventories	(957,680)	(143,881)
Prepayments for purchase	(27,158)	(88,997)
Other current assets	(15,149)	(2,228)
Notes payable	(338)	435
Trade payables	3,614	82,222
Trade payables to related parties	(25,230)	18,122
Amount due to customers for construction contracts	(15,741)	9,071
Other payables	(79,797)	114,771
Provisions	3,558	8
Receipts in advance	41,405	27,463
Other current liabilities	(67)	1,047
Net defined benefit liabilities	(160,876)	(632,516)
Cash generated from operations	162,369	1,031,973
Interest received	22,444	16,273
Dividend received	379	376
Interest paid	(5,260)	(4,581)
Income tax paid	(208,184)	(128,064)
Net cash generated from (used in) operating activities	(28,252)	915,977
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(315,761)	(249,358)
Proceeds from disposal of property, plant and equipment	190	627
Increase in refundable deposits	-	(22)
Decrease in refundable deposits	28	-
Acquisition of intangible assets	(900)	-

(Continued)

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

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

	2017	2016
Increase in other financial assets	\$ (779,604)	\$ (254,681)
Decrease in other financial assets	15,000	13,500
Decrease (increase) in non-current assets	<u>514</u>	<u>(707)</u>
Net cash used in investing activities	<u>(1,080,533)</u>	<u>(490,641)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	569,767	521,839
Repayments of short-term borrowings	(640,375)	(459,204)
Dividends paid to owners of the Company	(786,891)	(321,180)
Changes of non-controlling interests	<u>6,698</u>	<u>-</u>
Net cash used in financing activities	<u>(850,801)</u>	<u>(258,545)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(5,884)</u>	<u>(12,142)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,965,470)	154,649
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>4,163,901</u>	<u>4,009,252</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,198,431</u>	<u>\$ 4,163,901</u>

(Concluded)

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

(With Deloitte & Touche auditors' report dated March 14, 2018)

# SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

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

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### 1. GENERAL INFORMATION

Sheng Yu Steel Co., Ltd. (the “Company”) was incorporated in May 1973 and mainly engages in the manufacture, process and sale of cold rolled steel coils, galvanized steel coils, and pre-painted galvanized steel coils.

As of December 31, 2017, the Company’s shareholders were Yodogawa Steel Works Ltd. (YSW) - 52% (parent company and ultimate parent company); Toyota Tsusho Corporation - 11%; Fujiden International Corporation (an investee of YSW) - 1%; and other shareholders - 36%.

The Company’s shares have been listed on the Taiwan Stock Exchange since January 1997.

The consolidated financial statements of the Company and its subsidiaries (referred to collectively as “the Group”) are presented in the Company’s functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors and authorized for issue on March 14, 2018.

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

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

Except for the following, 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 did 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 of the Group, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group, are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Group has significant

transactions. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 28 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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
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 regards 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 Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) 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) 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 gain or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

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

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

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The 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 the 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 originated credit-impaired financial assets, the Group 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 Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables.

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

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

	<b>Carrying Amount as of December 31, 2017</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2018</b>
<u>Impact on assets, liabilities and equity</u>			
Available-for-sale financial assets-non-current	\$ 32,928	\$ (32,928)	\$ -
Financial assets at fair value through other comprehensive income-non-current	<u>-</u>	<u>32,928</u>	<u>32,928</u>
Total effect on assets	<u>\$ 32,928</u>	<u>\$ -</u>	<u>\$ 32,928</u>
Unrealized gain (loss) on available-for-sale financial assets	\$ 1,518	\$ (1,518)	\$ -
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	<u>-</u>	<u>1,518</u>	<u>1,518</u>
Total effect on equity	<u>\$ 1,518</u>	<u>\$ -</u>	<u>\$ 1,518</u>

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

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

When applying IFRS 15, the Group 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 Group satisfies a performance obligation.

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

In addition, the Group 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 anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Amounts due from customers for construction contracts	\$ 12,806	\$ (12,806)	\$ -
Contract assets - current	<u>-</u>	<u>12,806</u>	<u>12,806</u>
Total effect on assets	<u>\$ 12,806</u>	<u>\$ -</u>	<u>\$ 12,806</u>
Other payable	\$ 361,915	\$ (55,759)	\$ 306,156
Refund liabilities-current	-	55,759	55,759
Contract liabilities - current	-	82,266	82,266
Receipts in advance	79,854	(79,854)	-
Amounts due to customers for construction contracts	<u>2,412</u>	<u>(2,412)</u>	<u>-</u>
Total effect on liabilities	<u>\$ 444,181</u>	<u>\$ -</u>	<u>\$ 444,181</u>

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the Company currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendments will be applied retrospectively in 2018.

4) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Group should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of change in use is not limited to those illustrated in IAS 40.

The Group will reclassify the property as necessary according to the amendments to reflect the conditions that exist at January 1, 2018. In addition, the Group will disclose the reclassified amounts in 2018 and the reclassified amounts of January 1, 2018 should be included in the reconciliation of the carrying amount of investment property.



## 5) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

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

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

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group assessed would be no material of the initial that application of other standards and the amendments to interpretations on the its financial position and results of operations.

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
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 Corporation shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

### 1) IFRS 16 “Leases”

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

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

effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liabilities 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 Group as lessor.

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

## 2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

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

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

## 3) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 “Borrowing Costs”, were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

## 4) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

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

# 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

For readers’ convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail.

a. Statement of compliance

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

b. Basis of preparation

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

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

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

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

Current assets include:

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

Current liabilities include:

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

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

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

d. Basis of consolidation

Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 12, Table 5 and 6 for the detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

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

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

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries and associate in other countries that use currency different from the currency of the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

f. Inventories

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

g. Investment in associate

An associate is an entity over which the Group has significant influence and that is not a subsidiary.

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

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

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

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

When the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

#### h. Property, plant, and equipment

Property, plant and equipment ("PPE") are stated at cost less recognized accumulated depreciation.

PPE in the course of construction are carried at cost. Such assets are depreciated and classified to the appropriate categories of PPE when completed and ready for intended use.

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

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

#### i. Investment properties

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

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

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

j. Intangible assets

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

k. Impairment of tangible and intangible assets other than goodwill

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

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

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

l. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

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

i AFS financial assets

AFS financial assets are non-derivatives that are designated as AFS. Fair value is determined in the manner described in Note 27.

Dividends on AFS equity instruments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

ii Loans and receivables

Loans and receivables (including cash and cash equivalents, notes receivable, trade receivables (including related parties), other receivables and other financial assets) are measured (using the effective interest method) at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

Financial assets 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, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

- The disappearance of an active market for that financial asset because of financial difficulties.

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

In respect of AFS equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

#### c) Derecognition of financial assets

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

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

### 2) Equity instruments

Equity instruments issued by the Group are classified as equity in accordance with the definitions of an equity instrument.

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

### 3) Financial liabilities

#### a) Subsequent measurement

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

#### b) Derecognition of financial liabilities

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

### m. Revenue Recognition

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

#### 1) Sale of goods

Export sales are recognized when products are loaded onto shipping vessels in accordance with the sales terms, and domestic sales are recognized when products are delivered to and accepted by the



customers.

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

2) Rendering of services

Revenue from process contracts and technical support service is recognized at the contractual rates as direct expenses and labor hours are incurred.

3) Construction revenue

Contracts to process steel plates are accounted for by construction contracts accounting.

4) Dividend and interest income

Dividend income from investments is recognized when a shareholder'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.

n. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs, exception to not applicable to this method. Variations in contract work, claims and incentive payments are included to the extent the amount can be measured reliably and its receipt is considered probable.

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

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

o. Leasing

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as 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 Group's defined benefit plan.

q. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements 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 associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

3) Current and deferred tax for the year

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

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

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

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

a. Income taxes

Due to the unpredictability of future profit streams, the Company does not recognize deferred tax asset on tax losses. For the carrying amount of deferred tax assets in relation to unused tax losses, refer to Note 23. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

b. Useful lives of PPE and IPs

The estimated useful lives of PPE and IPs are determined at each balance sheet date. In cases where the estimated useful lives of the assets are changed, depreciation expense would also change.

c. Impairment of investment in associate

The Group immediately recognizes impairment loss on its net investment in the associate when there are any indications that the investment may be impaired and the carrying amount may not be recoverable. The Group's management evaluates the impairment estimated by the associate's management based on the market conditions and industry development. In cases where the future recoverable amount is lower than the carrying value of the investment, impairment loss would be recognized.

d. Recognition and measurement of defined benefit plans

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

## 6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ 1,331	\$ 1,779
Checking accounts and demand deposits	354,560	135,036
Cash equivalents		
Time deposits with original maturities less than 3 months	310,000	192,875
Repurchase agreements collateralized by bills and bonds with original maturities less than 3 months	<u>1,532,540</u>	<u>3,834,211</u>
	<u>\$ 2,198,431</u>	<u>\$ 4,163,901</u>

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT

	December 31	
	2017	2016
Unquoted shares - domestic and foreign investments		
Ascentek Venture Capital Co., Ltd.	\$ 4,978	\$ 5,014
United Steel International Developments Co.	<u>27,950</u>	<u>31,477</u>
	<u>\$ 32,928</u>	<u>\$ 36,491</u>

## 8. NOTES RECEIVABLE, TRADE RECEIVABLES, TRADE RECEIVABLES FROM RELATED PARTIES AND OTHER RECEIVABLES

	December 31	
	2017	2016
Notes receivable		
Notes receivable	\$ 1,814	\$ 1,980
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 1,814</u>	<u>\$ 1,980</u>
Trade receivables		
Trade receivables	\$ 746,699	\$ 890,745
Less: Allowance for impairment loss	<u>6,788</u>	<u>6,788</u>
	<u>\$ 739,911</u>	<u>\$ 883,957</u>
Trade receivables from related parties (Note 28)		
Trade receivables	\$ 7,219	\$ 14,552
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 7,219</u>	<u>\$ 14,552</u>
Other receivables		
Value-added tax refunds	\$ 43,752	\$ 19,867
Purchase commitment discounts	12,081	15,293
Others	<u>9,758</u>	<u>5,054</u>
	<u>\$ 65,591</u>	<u>\$ 40,214</u>

The average credit period for sales of goods was 30-90 days. In determining the recoverability of a trade receivables, the Group considers any change in the credit quality of the trade receivables since the date the credit was initially granted to the end of the reporting period.

The Group's transactions involved a large number of unrelated customers; thus, no concentration of credit risk was observed.

Aging analysis of trade receivables was as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Not past due	\$ 746,406	\$ 898,509
1-30 days past due	724	-
91-120 days past due	<u>6,788</u>	<u>6,788</u>
	<u>\$ 753,918</u>	<u>\$ 905,297</u>

Above analysis was based on the past due days from end of credit term.

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
1-30 days past due	<u>\$ 724</u>	<u>\$ -</u>

The Group recognized impairment loss on trade receivables amounting to both NT\$6,788 thousand as of December 31, 2017 and 2016. These amounts mainly related to customers that were in severe financial difficulties. The Group did not hold any collateral over these balances.

## 9. OTHER FINANCIAL ASSETS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current		
Reserve account (Note 29)	\$ 27,014	\$ 14,516
Pledged time deposits (Note 29)	7,237	4,584
Time deposits with original maturities more than 3 months	<u>1,115,728</u>	<u>351,275</u>
	<u>\$ 1,149,979</u>	<u>\$ 370,375</u>
Non-current		
Pledged time deposits (Note 29)	<u>\$ 8,000</u>	<u>\$ 23,000</u>

# **10. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONSTRUCTION CONTRACTS AND PROVISIONS**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Amount due from customers for construction contracts</u>		
Construction costs incurred plus recognized profits to date	\$ 35,573	\$ 77,770
Less: Progress billings	<u>22,767</u>	<u>61,751</u>
Amount due from customers for construction contracts	<u>\$ 12,806</u>	<u>\$ 16,019</u>
<u>Amount due to customers for construction contracts</u>		
Progress billings	\$ 11,944	\$ 36,810
Less: Construction costs incurred plus recognized profits to date	<u>9,532</u>	<u>18,657</u>
Amount due to customers for construction contracts	<u>\$ 2,412</u>	<u>\$ 18,153</u>

The provision for construction warranties represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties. The estimate had been made on the basis of historical warranty trends.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Warranties		
Current (included within other current liabilities)	\$ 2,894	\$ 1,658
Non-current	<u>4,658</u>	<u>2,336</u>
	<u>\$ 7,552</u>	<u>\$ 3,994</u>

# **11. INVENTORIES**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Finished goods	\$ 628,415	\$ 131,844
Work in progress	297,732	206,587
Raw materials	1,459,426	1,106,469
Supplies	32,777	37,678
Others	<u>13,184</u>	<u>9,138</u>
	<u>\$ 2,431,534</u>	<u>\$ 1,491,716</u>

The cost of inventories recognized as operating costs was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Provision for loss on inventories	<u>\$ 17,862</u>	<u>\$ 542</u>

## 12. SUBSIDIARIES

### Subsidiaries included in consolidated financial statements

Investor Company	Investee Company	Main Businesses and Products	Percentage of Ownership		Note
			December 31, 2017	December 31, 2016	
Sheng Yu Steel Co., Ltd.	Yodoko International Co., Ltd. (YI)	Manufactures and sells rolled steel for construction of buildings	78	78	
	Sheng-Shing Corp. (SS)	Manufactures and sells galvanized rolled steel	54	45	Note
YI	Yodoko International (HK) Ltd.	General investment	100	100	
SS	Sheng-Shing (Dongguan) Corp.	Manufactures and sells galvanized rolled steel	100	100	Note
	Sheng-Yu Trading (Dongguan) Corp.	Selling hardware, steels and import and export trading	100	100	Note

Note : As of December 31, 2017, the cumulative amount of the investment was NT\$81,549 thousand (US\$2,608,800). Before May 31, 2017, although the Company held less than 50% of SS shares, but the Company has the substantial control over the finance, operation and personnel of SS. Therefore, SS was deemed to be a subsidiary of the Company. SS invested additional US\$1,000 thousand and US\$600 thousand in Sheng Yu-Trading (Dongguan) Corp. in June 2017 and April 2016, respectively. In March 2017, SS shareholders' meeting resolved to increase its capital with cash of US\$1,300 thousand among which US\$1,040 thousand was additionally invested by the Company. Because the amount invested by the Company was not in line with its original shareholding percentage, the retained earnings were reduced by NT\$5,262 thousand. As of December 31, 2017, the registration of the abovementioned capital increase had not been completed.

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

### Investments in associates

	December 31	
	2017	2016
Material associate		
Yodogawa-Shengyu (Hefei) High Tech Steel Co., Ltd (YSS)	\$ 493,978	\$ 546,821
Associates not individually material	<u>14,892</u>	<u>16,748</u>
	<u>\$ 508,870</u>	<u>\$ 563,569</u>

#### a. Material associate

Name of Associate	Nature of Activities	Principal Place of Business	Proportion of Ownership and Voting Rights (%)	
			December 31, 2017	December 31, 2016
YSS	Manufacturing, processing and selling galvanized steel coils (plates) and pre-painted steel coils (plates)	China (Hefei)	21	21

When YSS issued new shares for cash in 2016, the Company did not participate in the capital increase with cash. The Company recognized NT\$565,280 thousand capital surplus in 2016 because the Company did not invest additional shares in accordance with its original shareholding percentage.

YSS was incorporated mainly to manufacture, process and sell galvanized steel coils (plates) and pre-painted steel coils (plates). Since the construction in mainland China and the steel market condition were unstable, YSS's turnover was far below its budget; therefore, the Company recognized NT\$42,009 thousand (RMB9,099 thousand) in share of the net loss of YSS based on the Company's shareholding percentage in YSS's impairment loss of RMB43,514 thousand for the fourth quarter of 2016.

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

#### YSS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current assets	\$ 1,577,767	\$ 1,986,340
Non-current assets	982,182	1,016,514
Current liabilities	(102,018)	(285,963)
Non-current liabilities	<u>(95,528)</u>	<u>(101,772)</u>
Equity	<u>\$ 2,362,403</u>	<u>\$ 2,615,119</u>
Proportion of the Group's ownership (%)	21	21
Equity attributable to the Group (Carrying amount)	<u>\$ 493,978</u>	<u>\$ 546,821</u>
	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating Revenues	<u>\$ 2,346,705</u>	<u>\$ 1,660,100</u>
Net loss for the year	\$ (220,427)	\$ (574,462)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive loss for the year	<u>\$ (220,427)</u>	<u>\$ (574,462)</u>

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

b. Aggregate information of associates that are not individually material

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
The Group's share of		
Net profit (loss) for the year	\$ (116)	\$ 3,739
Other comprehensive loss	<u>(784)</u>	<u>(1,006)</u>
Total comprehensive income for the year	<u>\$ (900)</u>	<u>\$ 2,733</u>

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



## 14. PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2017

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 491,938	\$ 1,940,696	\$ 9,323,319	\$ 49,464	\$ 322,368	\$ 104,980	\$ 12,232,765
Additions	-	19,250	253,141	-	12,665	(22,288)	262,768
Disposals	-	(6,100)	(180,964)	(1,030)	(6,870)	-	(194,964)
Effect of exchange rate changes	-	(53)	(4,341)	(53)	(97)	-	(4,544)
Balance at December 31, 2017	<u>491,938</u>	<u>1,953,793</u>	<u>9,391,155</u>	<u>48,381</u>	<u>328,066</u>	<u>82,692</u>	<u>12,296,025</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	-	1,447,687	7,882,318	35,188	250,548	-	9,615,741
Depreciation expense	-	42,053	204,922	2,376	10,333	-	259,684
Disposals	-	(5,715)	(176,660)	(1,010)	(5,875)	-	(189,260)
Effect of exchange rate changes	-	(9)	(3,981)	(27)	(69)	-	(4,086)
Balance at December 31, 2017	-	<u>1,484,016</u>	<u>7,906,599</u>	<u>36,527</u>	<u>254,937</u>	-	<u>9,682,079</u>
Net balance at December 31, 2017	<u>\$ 491,938</u>	<u>\$ 469,777</u>	<u>\$ 1,484,556</u>	<u>\$ 11,854</u>	<u>\$ 73,129</u>	<u>\$ 82,692</u>	<u>\$ 2,613,946</u>

For the year ended December 31, 2016

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 491,938	\$ 1,938,139	\$ 9,252,046	\$ 58,768	\$ 318,182	\$ 87,635	\$ 12,146,708
Additions	-	3,128	149,421	603	9,593	17,345	180,090
Disposals	-	(388)	(70,823)	(9,706)	(4,994)	-	(85,911)
Effect of exchange rate changes	-	(183)	(7,325)	(201)	(413)	-	(8,122)
Balance at December 31, 2016	<u>491,938</u>	<u>1,940,696</u>	<u>9,323,319</u>	<u>49,464</u>	<u>322,368</u>	<u>104,980</u>	<u>12,232,765</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2016	-	1,397,160	7,736,116	42,122	244,929	-	9,420,327
Depreciation expense	-	50,811	219,195	2,576	10,134	-	282,716
Disposals	-	(243)	(67,983)	(9,397)	(4,217)	-	(81,840)
Effect of exchange rate changes	-	(41)	(5,010)	(113)	(298)	-	(5,462)
Balance at December 31, 2016	-	<u>1,447,687</u>	<u>7,882,318</u>	<u>35,188</u>	<u>250,548</u>	-	<u>9,615,741</u>
Net balance at December 31, 2016	<u>\$ 491,938</u>	<u>\$ 493,009</u>	<u>\$ 1,441,001</u>	<u>\$ 14,276</u>	<u>\$ 71,820</u>	<u>\$ 104,980</u>	<u>\$ 2,617,024</u>

Construction in progress is mainly control system revamping.

The PPE held by the Group are depreciated on a straight-line basis over estimated useful lives as follows:

Buildings	
Office	20, 30 and 45-60 years
Plant	5-15, 20-40 and 45-60 years
Building improvements	5-40 and 45-60 years
Ancillary equipment	5-40 and 45-60 years
Machinery and equipment	
Main equipment	10-25 and 31-37 years
Ancillary equipment	3-20 and 25-40 years
Transportation equipment	5-10, 12 and 17 years
Other equipment	
Main equipment	2-17 and 20-26 years

## 15. INVESTMENT PROPERTIES

Except for depreciation expense, there was no change in 2017 and 2016.

The IPs located at Fangliao and Jiadong Township in Pingtung County are available-for-sale and for rent.

The IPs held by the Group are depreciated on the straight-line basis over estimated useful lives as follows:

**Buildings**

Administration and engineering centers	32-47 years
Main plant	12 years
Electrical and power equipment	8-9 years

The fair value of the Group's IPs as of December 31, 2017 and 2016 were NT\$653,944 thousand and NT\$511,929 thousand, respectively. The fair value had been arrived at on the basis of a valuation carried out on December 31, 2017 and 2015, by an independent qualified professional valuer not connected to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The Group believes any change in the fair value of IPs within 2 years since the valuation date will not be material; thus, appraisal of IPs is conducted biennially.

**16. SHORT-TERM BORROWINGS**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<hr/>		
Secured borrowings (Note 29)		
Bank loans	\$ 124,750	\$ 129,705
<hr/>		
Unsecured borrowings		
Bank loans	7,440	88,613
Loans from third party	<u>12,752</u>	<u>11,622</u>
	<u>\$ 144,942</u>	<u>\$ 229,940</u>
Interest rate (%) - Secured borrowings	2.46-5.66	2.29-5.66
Interest rate (%) - Unsecured borrowings	3.30-6.25	2.40-6.25

The subsidiaries, Sheng-Shing (Dongguan) Corp. and Sheng-Yu Trading (Dongguan) Corp., borrowed from third party amounting to NT\$12,752 thousand (RMB2,800 thousand) and NT\$11,622 thousand (RMB2,500 thousand) as of December 31, 2017 and 2016, respectively; the fund was used for short-term operating capital.

**17. NOTES PAYABLE AND TRADE PAYABLES**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<hr/>		
Notes payable		
Non-operating	<u>\$ 126</u>	<u>\$ 464</u>
Trade payables		
Operating	<u>\$ 276,691</u>	<u>\$ 273,077</u>

**a. Notes payable**

Notes payable are refundable deposits made as guarantee under raw materials and natural gas purchase contract that can be recovered and cancelled upon termination of the guarantee in the amounts of NT\$143,872 thousand and NT\$130,372 thousand as of December 31, 2017 and 2016, respectively.

b. Trade payables

Except for raw material hot rolled steel paid by letter of credit and raw material zinc and aluminum ingots paid in advance, the average credit period of other raw materials and supplies was within 3 months. The Group has financial risk management policies in place to ensure the all payables are paid within the pre-agreed credit terms. Thus, no interest was charged on the trade payables.

## 18. OTHER PAYABLES

	December 31	
	2017	2016
Year-end bonus	\$ 156,383	\$ 203,473
Sales discounts	55,759	65,288
Salaries	19,276	19,825
Unused annual leave	18,849	21,549
Electric power	17,272	21,121
Employees' compensation and remuneration to directors and supervisors	13,080	20,600
Others	<u>81,296</u>	<u>81,559</u>
	<u>\$ 361,915</u>	<u>\$ 433,415</u>

## 19. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

Sheng-Shing (Dongguan) Corp. and Sheng-Yu Trading (Dongguan) Corp. adopted local legal which is also state-managed defined contribution plan. Entities make monthly employee insurance to government organization, in order to pay to employees when they retire.

b. Defined benefit plans

The defined benefit plan adopted by the Company and YI in accordance with the Labor Standards Law ("LSL") is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and YI contribute amounts equal to certain percentage 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 Group 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 Group 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 Group has no right to influence the investment policy and strategy.

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

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Present value of the defined benefit obligation	\$ 1,224,908	\$ 1,287,296
Fair value of the plan assets	<u>(938,054)</u>	<u>(776,629)</u>
Net defined benefit liability	<u>\$ 286,854</u>	<u>\$ 510,667</u>

Movements in net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Balance at January 1, 2016	<u>\$ 1,172,742</u>	<u>\$ (139,597)</u>	<u>\$ 1,033,145</u>
Service cost			
Current service cost	14,864	-	14,864
Net interest expense (income)	<u>11,701</u>	<u>(5,343)</u>	<u>6,358</u>
Recognized in profit or loss	<u>26,565</u>	<u>(5,343)</u>	<u>21,222</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	873	873
Actuarial gain - change in financial assumptions	(21,881)	-	(21,881)
Actuarial loss - experience adjustments	<u>131,046</u>	<u>-</u>	<u>131,046</u>
Recognized in other comprehensive income	<u>109,165</u>	<u>873</u>	<u>110,038</u>
Contributions from the employer	<u>-</u>	<u>(653,738)</u>	<u>(653,738)</u>
Benefits paid	<u>(21,176)</u>	<u>21,176</u>	<u>-</u>
Balance at December 31, 2016	<u>1,287,296</u>	<u>(776,629)</u>	<u>510,667</u>
Service cost			
Current service cost	14,239	-	14,239
Net interest expense (income)	<u>15,490</u>	<u>(10,429)</u>	<u>5,061</u>
Recognized in profit or loss	<u>29,729</u>	<u>(10,429)</u>	<u>19,300</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,485	2,485
Actuarial loss - change in financial assumptions	37,184	-	37,184
Actuarial gain - experience adjustments	<u>(102,606)</u>	<u>-</u>	<u>(102,606)</u>
Recognized in other comprehensive income	<u>(65,422)</u>	<u>2,485</u>	<u>(62,937)</u>
Contributions from the employer	<u>-</u>	<u>(180,176)</u>	<u>(180,176)</u>
Benefits paid	<u>(26,695)</u>	<u>26,695</u>	<u>-</u>
Balance at December 31, 2017	<u>\$ 1,224,908</u>	<u>\$ (938,054)</u>	<u>\$ 286,854</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating costs	\$ 12,044	\$ 13,776
Selling and marketing expenses	2,130	2,413
General and administrative expenses	3,129	2,768
Research and development expenses	<u>1,997</u>	<u>2,265</u>
	<u><b>\$ 19,300</b></u>	<u><b>\$ 21,222</b></u>

Through the defined benefit plans under the LSL, the Group 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 significant assumptions used for the purposes of the actuarial valuations were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate (%)	0.8-1.2	1.2-1.6
Expected rate of salary increase (%)	2.0	2.0
Turnover rate (%)	0.0-1.0	0.0-1.0
Expected rate of return on plan assets (%)	0.8-1.2	1.2-1.6
Mortality rate	Based on 1989 Taiwan Standard Ordinary Experience Mortality Table	Based on 1989 Taiwan Standard Ordinary Experience Mortality Table

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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate		
1% increase	\$ (46,219)	\$ (103,088)
1% decrease	\$ 48,945	\$ 116,375
Expected rate of salary increase		
1% increase	\$ 41,970	\$ 100,748
1% decrease	\$ (40,172)	\$ (91,697)

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.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
The expected contributions to the plan for the next year	\$ 10,919	\$ 179,928
The average duration of the defined benefit obligation for the Company and YI	8 and 15 years	8 and 15 years

## 20. EQUITY

### a. Capital stock

Number of shares authorized (in thousands)	450,000
Shares authorized	\$ 4,500,000
Number of shares issued and fully paid (in thousands)	321,180
Shares issued	\$ 3,211,800

### b. Capital surplus

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Arising from issuance of capital stock	\$ 870,000	\$ 870,000
May be used to offset a deficit only		
Changes in capital surplus of investments in associate accounted for using equity method (Note 13)	687,364	687,364
	\$ 1,557,364	\$ 1,557,364

The capital surplus from shares issued in excess of par may be used to offset a deficit; in addition, when the Company has no deficit, the capital surplus may be distributed as cash dividends or transferred to

capital stock but subject to a specific limit once a year.

c. Retained earnings and dividend policy

Under the dividend policy of the Company's 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 shareholders' meeting for distribution of dividends and bonus to shareholders. The principle of dividends issued in such a way that cash dividends are not less than the total dividends of 90 percent.

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

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.

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

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

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended</b>		<b>For the Year Ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Legal reserve	\$ 127,013	\$ -		
Cash dividends	<u>786,891</u>	<u>321,180</u>	\$ 2.45	\$ 1
	<u>\$ 913,904</u>	<u>\$ 321,180</u>		

The appropriations of earnings for 2017 had been proposed by the Company's board of directors on March 14, 2018. The appropriations of earnings and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 74,361	
Cash dividends	562,065	\$ 1.75

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

d. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ 15,970	\$ 52,207
Exchange differences arising on translating the financial statements of foreign operations	(4,413)	(43,459)
Related income tax	<u>761</u>	<u>7,222</u>
Balance at December 31	<u>\$ 12,318</u>	<u>\$ 15,970</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ 5,081	\$ 12,861
Unrealized loss arising on revaluation of AFS financial assets	<u>(3,563)</u>	<u>(7,780)</u>
Balance at December 31	<u>\$ 1,518</u>	<u>\$ 5,081</u>

e. Non-controlling interests

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ 43,512	\$ 29,499
Attributable to non-controlling interests		
Share of profit for the year	5,374	19,286
Cash dividend	(1,109)	-
Issuance of ordinary shares for cash of subsidiaries	7,807	-
Non-controlling interests arising from issuance of ordinary shares for cash of subsidiaries	5,262	-
Exchange differences arising on translation of foreign entities	3,968	(4,541)
Remeasurement on defined benefit plans	469	(882)
Related income tax	<u>(80)</u>	<u>150</u>
Balance at December 31	<u>\$ 65,203</u>	<u>\$ 43,512</u>

## 21. OPERATING REVENUE

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Revenue from the sale of goods	\$ 13,346,416	\$ 12,468,792
Other revenues	<u>422,626</u>	<u>365,323</u>
	<u>\$ 13,769,042</u>	<u>\$ 12,834,115</u>



## 22. PROFIT BEFORE INCOME TAX

Profit before income tax was arrived at after crediting or charging:

a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Interest income	\$ 24,117	\$ 15,913
Rental income	1,342	125
Dividend income	<u>379</u>	<u>376</u>
	<u>\$ 25,838</u>	<u>\$ 16,414</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Net foreign exchange gain (loss)	\$ (40,166)	\$ 5,803
Loss on disposal of property, plant and equipment	(5,514)	(3,443)
Others	<u>17,772</u>	<u>(5,341)</u>
	<u>\$ (27,908)</u>	<u>\$ (2,981)</u>

The above net foreign exchange gain (loss) was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Foreign exchange gains	\$ 65,807	\$ 73,495
Foreign exchange losses	<u>(105,973)</u>	<u>(67,692)</u>
	<u>\$ (40,166)</u>	<u>\$ 5,803</u>

c. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 259,684	\$ 282,716
Investment property	8,341	12,711
Intangible assets	<u>488</u>	<u>1,041</u>
	<u>\$ 268,513</u>	<u>\$ 296,468</u>
An analysis of depreciation by function		
Operating costs	\$ 240,302	\$ 259,475
Operating expenses	<u>27,723</u>	<u>35,952</u>
	<u>\$ 268,025</u>	<u>\$ 295,427</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
An analysis of amortization by function		
Operating costs	\$ -	\$ -
Operating expenses	<u>488</u>	<u>1,041</u>
	<u>\$ 488</u>	<u>\$ 1,041</u>
		(Concluded)

d. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term employee benefits		
Salaries	\$ 725,324	\$ 762,312
Insurance	52,707	48,807
Others	<u>46,929</u>	<u>43,335</u>
	<u>824,960</u>	<u>854,454</u>
Post-employment benefits		
Defined contribution plans	16,855	15,012
Defined benefit plans (Note 19)	<u>19,300</u>	<u>21,222</u>
	<u>36,155</u>	<u>36,234</u>
	<u>\$ 861,115</u>	<u>\$ 890,688</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 514,300	\$ 527,582
Operating expenses	<u>346,815</u>	<u>363,106</u>
	<u>\$ 861,115</u>	<u>\$ 890,688</u>

The Company distributed employees' compensation and remuneration to directors and supervisors at the rates no less than 0.1% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation and remuneration to directors and supervisors (all in cash) for the years ended December 31, 2017 and 2016 which have been approved by the Company's board of directors in March 2018 and 2017, were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Employees' compensation	\$ 10,000	\$ 15,500
Remuneration to directors and supervisors	3,000	5,000

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

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

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

## 23. INCOME TAX

### a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax		
In respect of the current year	\$ 140,581	\$ 190,074
Income tax on unappropriated earnings	27,035	-
Adjustment for prior years	429	(698)
Deferred tax		
In respect of the current year	<u>29,047</u>	<u>106,937</u>
	<u>\$ 197,092</u>	<u>\$ 296,313</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Profit before income tax	<u>\$ 946,071</u>	<u>\$ 1,585,731</u>
Income tax expense calculated at the statutory rate	\$ 155,806	\$ 282,689
Nondeductible expenses in determining taxable income	6,339	673
Income tax on unappropriated earnings	27,035	-
Loss carryforwards used	-	(10,064)
Unrecognized deductible temporary differences	7,297	23,331
Adjustments for prior years	429	(698)
Sources of income withholding tax in mainland China	<u>186</u>	<u>382</u>
	<u>\$ 197,092</u>	<u>\$ 296,313</u>

The temporary differences above were mainly share of profit or loss of associate accounted for using the equity method.

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in the ROC, while the applicable tax rate used by subsidiaries in China is 25%.

b. Income tax benefit (expense) recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Deferred tax</b>		
In respect of the current year		
Remeasurement on defined benefit plan	\$ (10,699)	\$ 18,707
Exchange differences on translating of foreign operations	<u>761</u>	<u>7,222</u>
	<u>\$ (9,938)</u>	<u>\$ 25,929</u>

c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax assets		
Tax refund receivable	<u>\$ 54</u>	<u>\$ 302</u>
Current tax liabilities		
Income tax payable	<u>\$ 71,473</u>	<u>\$ 111,860</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<b>Deferred Tax Assets</b>				
Temporary differences				
Allowance for reduction of inventory to market	\$ 1,782	\$ (25)	\$ -	\$ 1,757
Defined benefit obligation	87,025	(27,350)	(10,699)	48,976
Depreciation tax difference	35,800	418	-	36,218
Unrealized sales discounts	8,363	(1,554)	-	6,809
Others	<u>7,981</u>	<u>(1,301)</u>	<u>-</u>	<u>6,680</u>
	<u>\$ 140,951</u>	<u>\$ (29,812)</u>	<u>\$ (10,699)</u>	<u>\$ 100,440</u>
<b>Deferred Tax Liabilities</b>				
Temporary differences				
Land value increment tax	\$ (48,432)	\$ -	\$ -	\$ (48,432)
Unrealized gain on foreign currency exchange	(610)	465	-	(145)
Others	<u>(7,572)</u>	<u>300</u>	<u>761</u>	<u>(6,511)</u>
	<u>\$ (56,614)</u>	<u>\$ 765</u>	<u>\$ 761</u>	<u>\$ (55,088)</u>

For the year ended December 31, 2016

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Closing Balance</b>
<u>Deferred Tax Assets</u>				
Temporary differences				
Allowance for reduction of inventory to market	\$ 2,324	\$ (542)	\$ -	\$ 1,782
Defined benefit obligation	175,849	(107,531)	18,707	87,025
Depreciation expense	35,506	294	-	35,800
Unrealized sales discounts	4,787	3,576	-	8,363
Others	<u>9,027</u>	<u>(1,046)</u>	<u>-</u>	<u>7,981</u>
	<u>\$ 227,493</u>	<u>\$ (105,249)</u>	<u>\$ 18,707</u>	<u>\$ 140,951</u>
<u>Deferred Tax Liabilities</u>				
Temporary differences				
Land value increment tax	\$ (48,432)	\$ -	\$ -	\$ (48,432)
Unrealized gain on foreign currency exchange	(275)	(335)	-	(610)
Others	<u>(13,441)</u>	<u>(1,353)</u>	<u>7,222</u>	<u>(7,572)</u>
	<u>\$ (62,148)</u>	<u>\$ (1,688)</u>	<u>\$ 7,222</u>	<u>\$ (56,614)</u>

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

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Deductible temporary differences		
Loss on investments in subsidiaries and associate accounted for using the equity method	<u>\$ 1,623,485</u>	<u>\$ 1,580,559</u>

- f. Integrated income tax related information

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Unappropriated earnings		
Generated before January 1, 1998	\$ 713,300	\$ 718,562
Generated on and after January 1, 1998	<u>2,026,495</u>	<u>2,144,945</u>
	<u>\$ 2,739,795</u>	<u>\$ 2,863,507</u>
Imputation credits account ("ICA")	<u>\$ 463,847</u>	<u>\$ 533,483</u>

The creditable ratio for distribution of earnings of 2016 was 29.99% (actual ratio).

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.

g. Income tax assessments

The Company's and YI's income tax returns through 2015 have been assessed by the tax authorities.

- h. In February 2018, it was announced by the Office of the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by NT\$17,725 thousand and NT\$1,175 thousand, respectively, in 2018. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

## 24. EARNINGS PER SHARE

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Profit for the year attributable to owners of the Company	\$ <u>743,605</u>	\$ <u>1,270,132</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Weighted average number of ordinary shares in computation of basic earnings per share	321,180	321,180
Effect of potentially dilutive ordinary shares:		
Employees' compensation	<u>426</u>	<u>517</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>321,606</u>	<u>321,697</u>

Since the Company offered to settle compensation paid to employees in cash or shares, the Company assumed that the entire amount of compensation or bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

## 25. NON-CASH TRANSACTIONS

For the years ended December 31, 2017 and 2016, the Group entered into the following non-cash investing activities which were not reflected in the consolidated statement of cash flows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>

**INVESTMENT ACTIVITIES AFFECTING BOTH CASH AND  
NON-CASH ITEMS**

Acquisition of PPE	\$ 262,768	\$ 180,090
Increase in prepayment for equipment purchased	61,446	71,088
Increase in payable for equipment purchased	<u>(8,453)</u>	<u>(1,820)</u>
Cash paid for acquisition of PPE	<u>\$ 315,761</u>	<u>\$ 249,358</u>

## 26. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategies are unchanged in the recent 2 years.

The capital structure of the Group consists of equity attributable to owners of the company (comprising capital stock, capital surplus, retained earnings and other equity items).

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

## 27. FINANCIAL INSTRUMENTS

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

The Group's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

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

- 1) Fair value hierarchy

### Level 3

<u>December 31, 2017</u>	
AFS financial assets	
Unlisted securities - ROC Equity securities	\$ 4,978
Unlisted securities - Other countries Equity securities	<u>27,950</u>
	<u>\$ 32,928</u>
<u>December 31, 2016</u>	
AFS financial assets	
Unlisted securities - ROC Equity securities	\$ 5,014
Unlisted securities - Other countries Equity securities	<u>31,477</u>
	<u>\$ 36,491</u>

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

	<b>Available-for-sale Financial Assets</b>	
	<b>For the Year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance at January 1	\$ 36,491	\$ 44,271
Total gains or losses		
In other comprehensive income	<u>(3,563)</u>	<u>(7,780)</u>
Balance at December 31	<u>\$ 32,928</u>	<u>\$ 36,491</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

The fair values of unlisted equity securities - ROC were estimated by the observable market price or net value.

c. Categories of financial instruments

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Financial assets</b>		
Loans and receivables 1)	\$ 4,173,700	\$ 5,500,762
AFS financial assets	32,928	36,491
<b>Financial liabilities</b>		
Measured at amortized cost 2)	859,703	1,034,597

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables (including related parties), other receivables, and other financial assets (including current and non-current), and refundable deposits.

2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, trade payables (including related parties), other payables, guarantee deposits, and provisions (including current and non-current).

d. Financial risk management objectives and policies

The Group's major financial instruments include repurchase agreements collateralized by bills and bonds, equity investments, trade receivable, trade payables and borrowings. The Group's Corporate Treasury function provides services to the business, manages the Group entities' capital and foreign exchange risk and financial risk. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

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

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



a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities are set out in Note 31.

Sensitivity analysis

The Group was mainly exposed to the foreign currency USD and RMB.

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against USD and RMB, respectively. The sensitivity rate of 1% is 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 1% change in foreign currency rates. A positive number in the table below indicates an increase in pre-tax profit and other comprehensive income if New Taiwan dollars weakened by 1% against USD and RMB. If New Taiwan dollars strengthened by 1% against USD and RMB, there would be an equal and opposite impact on pre-tax profit and other comprehensive income and the balances in the table below would be negative.

	<b>Amount</b>	
	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<hr/>		
Impact of USD		
<hr/>		
Profit or loss	\$ 16,601	\$ 3,579
<hr/>		
Impact of RMB		
<hr/>		
Other comprehensive income	4,940	5,468

b) Interest rate risk

The group manages liquidity funds by depositing fixed-income financial instruments, including time deposits and repurchase agreements collateralized by bills and bonds.

The following table shows the carrying amount of the Group's financial assets exposed to interest rates risk at the end of the reporting period.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<hr/>		
Cash flow interest rate risk		
Financial assets	\$ 1,725,015	\$ 668,579
Financial liabilities	132,190	218,318

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for financial assets at the end of the reporting period. The analysis was prepared assuming the amount of the net assets outstanding at the end of the reporting period was outstanding for the

whole year. A 1% 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 of financial asset had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2017 and 2016 would increase/decrease by NT\$17,250 thousand and NT\$6,686 thousand, respectively.

## 2) Credit risk

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

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group uses publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee periodically.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

## 3) Liquidity risk

The Group manages liquidity risk by maintaining a sufficient level of cash and cash equivalents to meet the Group's operational demand and mitigate the effects of fluctuations in cash flows.

### Liquidity risk tables

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

	<b>Less Than 3 Months</b>	<b>3 Months to 1 Year</b>	<b>&gt;1 Year</b>	<b>Total</b>
<u>December 31, 2017</u>				
Non-derivative financial liability				
Non-interest bearing	\$ 709,588	\$ -	\$ 5,173	\$ 714,761
Variable interest rate liabilities	<u>31,809</u>	<u>114,868</u>	<u>-</u>	<u>146,677</u>
	<u>\$ 741,397</u>	<u>\$ 114,868</u>	<u>\$ 5,173</u>	<u>\$ 861,438</u>
<u>December 31, 2016</u>				
Non-derivative financial liability				
Non-interest bearing	\$ 801,806	\$ -	\$ 2,851	\$ 804,657
Variable interest rate liabilities	<u>43,332</u>	<u>188,994</u>	<u>-</u>	<u>232,326</u>
	<u>\$ 845,138</u>	<u>\$ 188,994</u>	<u>\$ 2,851</u>	<u>\$ 1,036,983</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

## 28. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides as disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

### a. Related parties

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Yodogawa Steel Works Ltd.(YSW)	Parent entity
Toyota Tsusho Corporation	Institutional director
Yung Chi Paint & Varnish Mfg Co., Ltd. (YCP)	Institutional director
San-I Chemical Ltd.	Other related party (as third party since June 15, 2017)
Fujiden International Corporation	Director (as Director since June 15, 2017)
Yodogawa-Shengyu (Hefei) High-Tech Steel Co., Ltd. (YSS)	Associate
Yodoko Shoji Co., Ltd.	Fellow subsidiary
Dogguan Mingxin Electronics Co., Ltd.	Other related party

### b. Trading transactions

<u>Line Items</u>	<u>Related Party Categories</u>	<u>For the Year Ended December 31</u>	
		<u>2017</u>	<u>2016</u>
Sales of goods	Other related party - Subsidiary of the subsidiary's key management	\$ <u>-</u>	\$ <u>7</u>
Service Revenue	Associates	\$ 6,467	\$ 15,372
	Other related party - Subsidiary of the subsidiary's key management	3,977	4,749
		<u>\$ 10,444</u>	<u>\$ 20,121</u>
Purchases of goods	Parent Company	\$ 1,135	\$ 847
	Institutional director and supervisor	789,647	807,626
	Fellow subsidiaries	-	3,604
	Other related party - The responsible party is an institutional director of the Company	6,350	11,564
		<u>\$ 797,132</u>	<u>\$ 823,641</u>

Under the terms of the technical support service agreement entered into between the Company and YSS, the service fees are determined and collected on cost-plus basis and recognized as service revenue.

The sales or purchase prices of the above transactions were similar to those with third parties, except the prices of part of products purchased from institutional directors – YCP, which have no third parties to compare with. The credit terms of the transactions are 10 days to 3 months.

Trade receivables from related parties at the balance sheet date were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Related Party Categories</u>		
Associates	\$ 5,615	\$ 13,095
Other related party - Subsidiary of the subsidiary's key management	<u>1,604</u>	<u>1,457</u>
	<u>\$ 7,219</u>	<u>\$ 14,552</u>

For the years ended December 31, 2017 and 2016, no impairment loss was recognized on receivables from related parties.

Trade payables to related parties at the balance sheet date were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Related Party Categories</u>		
Parent entity	\$ -	\$ 95
Institutional director - YCP	67,962	91,676
Other related party - The responsible party is an institutional director of the Company	<u>-</u>	<u>1,421</u>
	<u>\$ 67,962</u>	<u>\$ 93,192</u>

The outstanding trade payables to related parties are unsecured and will be paid by cash, and no guarantee had been received for receivables from related parties.

c. Other transactions with related parties

Under the terms of the technical service agreement entered into by the Company and YSW from 2016 to 2018, the Company should calculate and pay semi-annually technical service fees to YSW for providing technical assistance. Also, YI has technical service agreement with YSW; under the terms of the agreement, YI should calculate technical service fees semi-annually on constant rate of operating revenue and pay to YSW.

Information about service fees was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating costs	<u>\$ 4,699</u>	<u>\$ 4,960</u>
Operating expenses	<u>\$ 2,501</u>	<u>\$ 2,818</u>

Other payables to related parties at the balance sheet date were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Related Party Categories</u>		
Parent entity	\$ <u>1,998</u>	\$ <u>2,753</u>

d. Significant lease

Sheng-Shing (Dongguan) Corp. leased premises from other related party as plant and office which will end on November 30, 2019; the rent expense paid monthly was NT\$4,759 thousand (RMB1,056 thousand) and NT\$5,463 thousand (RMB1,076 thousand) for the years ended December 31, 2017 and 2016, respectively.

e. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term employee benefits	\$ 25,279	\$ 31,455
Post-employment benefits	<u>655</u>	<u>1,257</u>
	\$ <u>25,934</u>	\$ <u>32,712</u>

## 29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for natural gas purchase contract and for bank financing credits. The pledged assets recognized as other financial assets - current or non-current by guarantee purpose were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current	\$ <u>34,251</u>	\$ <u>19,100</u>
Non-current	\$ <u>8,000</u>	\$ <u>23,000</u>

## 30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments of the Group as of December 31, 2017 were as follows:

- As of December 31, 2017 unused letters of credit for purchases of raw materials amounted to approximately NT\$390,442 thousand.
- As of December 31, 2017 outstanding construction contracts for YI aggregated approximately NT\$115,514 thousand.

## 31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information is a disclosure of the significant assets and liabilities denominated in foreign currencies other than the functional currencies of the Group entities and the exchange rates between the

foreign currencies and respective functional currencies.

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
<hr/> December 31, 2017 <hr/>				
Assets				
Monetary items				
USD	\$ 57,042	29.76	(USD:NTD)	\$ 1,697,570
USD	3,900	6.534	(USD:RMB)	116,064
Non-monetary items				
Investments accounted for using equity method				
RMB	108,210	4.565	(RMB:NTD)	493,978
Liabilities				
Monetary items				
USD	5,159	6.534	(USD:RMB)	153,532
<hr/> December 31, 2016 <hr/>				
Assets				
Monetary items				
USD	12,206	32.25	(USD:NTD)	393,644
USD	4,123	6.937	(USD:RMB)	132,967
Non-monetary items				
Investments accounted for using equity method				
RMB	118,437	4.617	(RMB:NTD)	546,821
Liabilities				
Monetary items				
USD	5,232	6.937	(USD:RMB)	168,732
JPY	26,366	0.2756	(JPY:NTD)	7,266

The total realized and unrealized net foreign exchange gains and losses were losses NT\$40,116 thousand and gains NT\$5,803 thousand for the years ended December 31, 2017 and 2016, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of each entity.

## 32. SEPARATELY DISCLOSED ITEMS

### a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held. (Table 2)

- 4) Marketable securities acquired and disposed at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 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 of at least NT\$100 million or 20% of the paid-in capital. (Table 3)
  - 8) Trade receivables from related parties of at least NT\$100 million or 20% of the paid-in capital. (Table 4)
  - 9) Trading in derivative instruments. (None)
  - 10) Intercompany relationships and significant intercompany transactions. (Table 7)
  - 11) Information on investees. (Table 5)
- 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, investment gain or loss, carrying amount of the investment at the end of the period, repatriated investment gain or loss, and limit on the amount of investment in the mainland China area. (Table 6)
  - 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:
    - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (None)
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

	<b>Amount</b>	<b>Account for %</b>
Sales	\$ 31,526	-
Receivables from related parties	8,325	-
  - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
  - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes. (None)
  - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds. (None)
  - 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. (Note 28, b. Service Revenue)

### 33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments were as follows:

Sheng Yu Steel Co., Ltd. (Sheng Yu) - manufactures and sells galvanized steel coils and pre-painted galvanized steel coils.

Others - subsidiaries referred to in Note 12 which do not reach the quantitative threshold are considered as operating segments.

#### a. Segment revenues and results

The following was an analysis of the Group's revenue and results from operations by reportable segment.

	Sheng Yu	Others	Total
<u>For the year ended December 31, 2017</u>			
Revenues from external customers	\$ 13,163,544	\$ 605,498	\$ 13,769,042
Inter-segment revenues	<u>87,051</u>	<u>292,206</u>	<u>379,257</u>
Segment revenues	<u>\$ 13,250,595</u>	<u>\$ 897,704</u>	14,148,299
Eliminations			<u>(379,257)</u>
Consolidated revenues			<u>\$ 13,769,042</u>
Segment income	<u>\$ 964,891</u>	<u>\$ 34,560</u>	\$ 999,451
Interest income			24,117
Interest expense			(5,102)
Share of the net loss of associates accounted for using the equity method			(46,208)
Other non-operating income and expenses			<u>(26,187)</u>
Profit before tax			<u>\$ 946,071</u>
<u>For the year ended December 31, 2016</u>			
Revenues from external customers	\$ 12,211,073	\$ 623,042	\$ 12,834,115
Inter-segment revenues	<u>84,446</u>	<u>296,034</u>	<u>380,480</u>
Segment revenues	<u>\$ 12,295,519</u>	<u>\$ 919,076</u>	13,214,595
Eliminations			<u>(380,480)</u>
Consolidated revenues			<u>\$ 12,834,115</u>
Segment income	<u>\$ 1,660,576</u>	<u>\$ 62,248</u>	\$ 1,722,824
Interest income			15,913
Interest expense			(4,810)
Share of the net loss of associates accounted for using the equity method			(145,716)
Other non-operating income and expenses			<u>(2,480)</u>
Profit before tax			<u>\$ 1,585,731</u>



Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profit or loss of associates, interest income, gain or loss on disposal of property, plant and equipment, exchange gain or loss, valuation gain or loss on financial instruments, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Segment assets</b>		
Sheng Yu	\$ 10,234,396	\$ 10,550,524
Others	553,100	495,645
Eliminations	<u>(295,733)</u>	<u>(157,160)</u>
Consolidated total assets	<u>\$ 10,491,763</u>	<u>\$ 10,889,009</u>
<b>Segment liabilities</b>		
Sheng Yu	\$ 1,167,260	\$ 1,479,474
Others	365,866	363,688
Eliminations	<u>(173,702)</u>	<u>(68,715)</u>
Consolidated total liabilities	<u>\$ 1,359,424</u>	<u>\$ 1,774,447</u>

c. Other segment information

Other information reviewed by the chief operating decision maker or regularly provided to the chief operating decision maker was as follows:

	<b>Depreciation and amortization</b>		<b>Amounts of additions to non-current assets</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Sheng Yu	\$ 259,292	\$ 283,842	\$ 305,087	\$ 249,310
Others	<u>9,221</u>	<u>12,626</u>	<u>19,514</u>	<u>2,575</u>
	<u>\$ 268,513</u>	<u>\$ 296,468</u>	<u>\$ 324,601</u>	<u>\$ 251,885</u>

Note: Non-current assets exclude financial instruments and deferred tax assets.

d. Revenue from major products and services

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Galvanized steel coils	\$ 7,384,230	\$ 5,998,845
Pre-painted galvanized steel coils	5,526,569	5,957,129
Other steel products	435,617	512,818

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Services	\$ 56,277	\$ 53,926
Construction	169,672	154,816
Others	<u>196,677</u>	<u>156,581</u>
	<u>\$ 13,769,042</u>	<u>\$ 12,834,115</u>
		(Concluded)

e. Geographical information

The Group operates in two principal geographical areas - Taiwan and Asia.

The Group's revenue from external customers by customers' location and information about its non-current assets by location of assets are detailed below:

	<b>Revenue from External Customers</b>		<b>Non-current Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Taiwan	\$ 8,367,374	\$ 8,162,688	\$ 3,041,263	\$ 2,998,595
Europe and America	3,143,989	2,361,556	-	-
Asia	1,627,357	1,681,803	33,796	26,539
Others	<u>630,322</u>	<u>628,068</u>	<u>-</u>	<u>-</u>
	<u>\$ 13,769,042</u>	<u>\$ 12,834,115</u>	<u>\$ 3,075,059</u>	<u>\$ 3,025,134</u>

Non-current assets exclude financial instruments and deferred tax assets.

f. Information about major customers

No other single customers contributed 10% or more to the Group's revenue for both 2017 and 2016.

**TABLE 1**

**SHENG YU STEEL CO., LTD. AND SUBSIDIARIES**

**FINANCING PROVIDED TO OTHERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(Amounts in Thousands of New Taiwan Dollar, unless stated otherwise)**

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year	Ending Balance	Actual Borrowing Amount (Note 4)	Interest Rate (%)	Nature of Financing	Business Transaction Amounts	Reason for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrower (Note 2)	Aggregate Financing Limits (Note 3)
													Item	Value		
0	The Company	Yodoko International Co., Ltd.	Other receivables	Y	\$ 11,000	\$ 11,000	\$ 11,000	1.023-2.095	Short-term financing	\$ -	Operating capital	\$ -	Promissory notes	\$ 11,000	\$ 906,714	\$ 1,813,427
0	The Company	Sheng-Shing Corp.	Other receivables	Y	193,440	148,800	148,800	1.023-2.095	Short-term financing	-	Operating capital	-	Promissory notes	148,800	906,714	1,813,427

Note 1: The amount of highest balance for the year of Sheng-Shing Corp. was US\$6,500 thousand, the amount of ending balance, actual borrowing amount and collateral value were all US\$5,000 thousand; the exchange rate above was USD1 : NTD29.76 at balance sheet date.

Note 2: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of the Company.

Note 3: The total amount available for lending purpose shall not exceed twenty percent (20%) of the net worth of the Company.

Note 4: The actual borrowing amounts were eliminated in full upon consolidation.

**DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollar, unless stated otherwise)

Note: Information on investment in subsidiaries and associates, please refer to Table 5 and Table 6.

**TABLE 3**

**SHENG YU STEEL CO., LTD. AND SUBSIDIARIES**

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

[illegible]

Note: The amount was eliminated in full upon consolidation.

TABLE 4

SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

TRADE RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollar, unless stated otherwise)

Company Name	Related Party	Relationship	Ending Balance (Note1)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
The Company	Sheng-Shing Corp.	Subsidiary	\$ 149,071	Note 2	\$ -		\$ 271	\$ -
The Company	Sheng-Shing Corp.	Subsidiary	9,112	1.84	-		9,112	-
Sheng-Shing Corp.	Sheng-Shing (Dongguan) Corp.	Subsidiary	139,266	1.67	-		-	-

Note 1: The amount was eliminated in full upon consolidation.

Note 2: Including intercompany loan and interest receivable, does not appropriately present turnover rate.

**TABLE 5**

## SHENG YU STEEL CO., LTD. AND SUBSIDIARIES

## INFORMATION OF INVESTEES

**FOR THE YEAR ENDED DECEMBER 31, 2017**

(Amounts in Thousands of New Taiwan Dollar, unless stated otherwise)

[illegible]

Note 1: Information on investments in mainland China, please refer to Table 6.

Note 2: The amounts were eliminated in full upon consolidation.

**TABLE 6**

**SHENG YU STEEL CO., LTD. AND SUBSIDIARIES**

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2017**

(In Thousands of New Taiwan Dollar, unless stated otherwise)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	Percentage of Ownership (%)	Share of Profit/Losses	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow						
Yodoko Building Material (Hangzhou) Co., Ltd.	Manufacturing and selling metal architectural materials	\$ 39,878	Note 1	\$ 9,514	\$ -	\$ -	\$ 9,514	\$ (556 )	16	\$ (116 )	\$ 14,892	\$ -
Sheng-Shing (Dongguan) Corp.	Processing and selling galvanized steel coils (plates)	96,452	Note 2	50,752	-	-	50,752 (Note 5)	(5,082 )	54 (Note 7)	(2,549 )	42,389	-
Sheng-Yu Trading (Dongguan) Corp.	Selling hardware, steels and import and export trading	59,520	Note 2	14,108	16,317	-	30,425 (Note 6)	6,673	54 (Note 7)	2,947	38,428	-
Yodogawa-Shengyu (Hefei) High-Tech Steel Co., Ltd.	Manufacturing, processing and selling galvanized steel coils (plates) and pre-painted steel coils (plates)	6,547,200	Note 3	1,388,640	-	-	1,388,640	(220,427 ) (Note4)	21	(46,092 )	493,978	-

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 8)
\$1,479,331	\$1,496,299	\$5,440,282

- Note 1: Investments were made through a holding company registered in a third region, Yodoko International (HK) Ltd.
- Note 2: Investments were made through a holding company registered in a third region, Sheng-Shing Corp.
- Note 3: The Company directly invested in companies located in mainland China.
- Note 4: Amount was recognized based on the financial statements audited by an international accounting firm with cooperation relationships with the accounting firm in the Republic of China.
- Note 5: Including Sheng-Shing Corp.’s investment in Sheng-Shing (Dongguan) by bank financing US\$198 thousand (US\$441 thousand × 45%).
- Note 6: Including Sheng-Shing Corp.’s investment in Sheng-Yu Trading (Dongguan) by bank financing US\$991 thousand (US\$1,000 thousand × 45% and US\$1,000 thousand × 54.1%).
- Note 7: The original percentage of ownership was 45%, the Company had not participated in the capital increase by cash at its original shareholding percentage for Sheng-Shing in 2017; thus, the percentage of ownership increased to 54.1%.
- Note 8: The maximum amount that can be invested shall not exceed sixty percent (60%) of the net worth of the Company, in accordance with the “Principles Governing the Review of Investments or Technical Cooperation in Mainland China” issued by the Investment Commission.
- Note 9: Except for Yodoko Building Material (Hangzhou) Co., Ltd. and Yodogawa-Shengyu (Hefei) High-Tech Steel Co., Ltd., the other amounts were eliminated in full upon consolidation.



**TABLE 7**

**SHENG YU STEEL CO., LTD. AND SUBSIDIARIES**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollar, unless stated otherwise)**

Buyer / Seller	Related Party	Relationship	Transaction Details			
			Financial Statement Account	Amount	Payment Terms	% to Total Operating Revenue or Total Assets
The Company	Yodoko International Co., Ltd.	Parent company on behalf of subsidiaries	Other receivables	\$ 11,069	Based on the commitment	-
			Trade receivables	3,948	Based on the commitment	-
			Other payable	503	Similar to those with third parties	-
			Operating revenue	32,296	Similar to those with third parties	-
	Sheng-Shing Corp.	Parent company on behalf of subsidiaries	Trade receivables	9,112	Similar to those with third parties	-
			Other receivables	149,071	Based on the commitment	1
			Operating revenue	54,754	Similar to those with third parties	-
Sheng-Shing Corp.	Sheng - Shing (Dongguan)	Parent company on behalf of subsidiaries	Trade receivables	139,266	Based on the commitment	1
			Operating revenue	218,942	Based on the commitment	2
	Sheng - Yu Trading (Dongguan) Corp.	Parent company on behalf of subsidiaries	Trade receivables	25,573	Based on the commitment	-
			Operating revenue	40,993	Based on the commitment	-
Yodoko International Co., Ltd.	The Company	Subsidiaries on behalf of parent company	Trade receivables	397	Based on the commitment	-
			Operating revenue	21,186	Based on the commitment	-
Sheng - Shing (Dongguan)	Sheng - Yu Trading (Dongguan) Corp.	Subsidiaries on behalf of subsidiaries	Trade receivables	18,576	Based on the commitment	-
			Operating revenue	11,086	Based on the commitment	-