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China Motor Corporation

2017 Annual Report

(Translation)

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Notice to Readers

The Annual Report have been translated into English from the original Chinese version. 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 version shall prevail.

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Letter to Shareholders

Under the ongoing push from the government strategy of old car replacement subsidy, the replacement demand for purchasing emerged in the automobile market in Taiwan in 2017. About 444,600 licenses were issued in the entire automobile market, equivalent to a 1.1% growth compared to the previous year.

For the launch of several new models in 2017, 48,184 cars were sold in Taiwan, which was a 4.0% growth compared to 2016. The after-tax EPS was NT\$3.01, and the after-tax net income reached the highest point ever after 2006. As for the export market, influenced by the fact that FREECA was sold for the last year in the Philippines and the automobile stock adjustment in South East Motor (SEM), our general export was 13.1% less compared to 2016.

In 2018, we will continue to launch special versions based on the models that we have now and undergo some system adjustment. We further plan to launch a modified model of VERYCA in the 3rd quarter and a modified model of OUTLANDER in the 4th quarter. Thanks to the continuous effect of the old car replacement strategy, we are expecting the sale to grow further in 2018 compared to 2017. Besides our continuous expansion of the export market in South East Asia, the Middle East and Central and South America, we actively seek for the opportunity to export electric scooters and other products to create a new page for our export business in 2018.

For the automobile market in Mainland China, the DX7 and DX3 models launched by our investee, South East Motor (SEM), achieved good sales performance. 155 thousand cars were sold in 2017, which was a 30.9% growth compared to that of 2016. We will be launching DX3 electric cars, DX7 modified models and other cars. We predict a sale of 165 thousand cars and challenge to top the highest number in the history. Moreover, Fujian Mercedes-Benz, our investee, sold 224 thousand cars in 2017 with the push of V-class luxurious multi-functional models and New Vito new models, which was an 80% vast growth compared to that of 2016. Along with the continual popularity of V-class models, we are hoping that we can reach the sale of 30 thousand cars this year.

For the new business expansion, 9,372 models of electric two wheelers were sold in 2017, which included 6,770 electric scooters, and we have 15% of the market share. In 2018, we will continue to promote selling or renting models to current judicial persons, accelerating the extension of monopoly

Letter to Shareholders

sales channels and free charger stations on campus, and launching the special version models in the hope to sell 12 thousand models in the whole year.

CMC appreciates the dedicated support and encouragement from every shareholder. Although the automobile market competition will become fiercer in 2018, we will still work towards creating better sales performance for the Company to reciprocate our shareholders.



Kenneth K.T. YEN

Chairperson

March 31, 2018

Company Profile

I. Founding Date

June 13, 1969

II. Company History

- 1969 The Corporation was founded by late Yen Tjing Ling with capital NT\$100 million.
- 1970 The Corporation signed technique cooperation contract with Mitsubishi Motors Corporation.
- 1973 Yangmei Plant was built, manufacturing Fuso and Delica.
- 1986 Mitsubishi Motors Corporation (MMC) and Mitsubishi Corporation officially invested the Corporation, holding 19% and 6% of the stock respectively.
- 1988 Verica, a light commercial vehicle, was developed by the Corporation successfully, launched for formal production.
- 1990 Mechanical stamping plant was built, and Hsinchu Plant was built.
- 1993 Our first product in the sedan field - official launch of LANCER. The production amount of cars in the same year broke 500 thousand.
- 1998 Over 1 million cars were sold.
- 1999 SEM was completed for production. In the same year, the main building of CARTEC was completed, and China-Motor Indigenous Culture and Education Foundation was founded.
- 2006 The Corporation signed a letter of intent with Chrysler to produce Dodge brand vehicles and exported them to Mexico from Taiwan.
In the same year, the Corporation undertook the production of Chrysler's Town & Country RV, which was the first time of it to be technically authorized and produced overseas.
- 2007 The plant of Fujian Daimler Motors Industry Co., Ltd. (now Fujian Benz Automotive Co., Ltd.) was built.
- 2010 The Corporation joined in green energy industry, releasing "e-moving", an electric scooter.
- 2012 Export of the LANCER FORTIS to the Middle East market. CMC cooperated with Mitsubishi Motors Corporation (MMC) to march toward the international market together with the work divided into production and marketing.

Company Profile

- 2013 Own brand 3.5T Leadca commercial vehicle was released.
- 2015 Research and develop ZINGER independently, and have the car released with China Motor Brand.
- 2016 CMC helped Mitsubishi Motor Corporation with international division of labor. The first batch of modules was shipped to Indonesia.
- 2017 The GRAND LANCER, of which China-motor Asia Research & Technology Center (CARTEC) led the development, was launched.

III. Business Results

- (1) Won the first place in Award of Corporate Social Responsibility, traditional industry group, Global Views Monthly, three years in a row, and was listed in CSR three times.
- (2) COLT PLUS, LANCER iO, and OUTLANDER were certified with energy label by Ministry of Economic Affairs.
- (3) Received the Award of Corporation with the Highest Average Asset Return in the Past 20 Years from China Credit Information Service, Ltd.
- (4) Selected as 2010 Excellent Company with Friendly Working Space by Ministry of Labor.
- (5) China Motor Training Center was honored as Excellent Training Unit in Taoyuan Area, Vocational Training Bureau, Executive Yuan.
- (6) E-moving electric scooter was certified TES (Taiwan E-scooter Standard) by Industrial Development Bureau, Ministry of Economic Affairs and honored as Eco-Friendly Vehicle of the Year by Environmental Protection Agency.
- (7) In 2010, e-moving electric motorcycle received iF Design Award, Germany, Taiwan Excellence, Award of Good Design Mark, and Golden Pin Design Award, Industrial Development Bureau, Ministry of Economic Affairs.
- (8) Outlander and Lancer Fortis received Award of High Efficient Dynamics and Award of Energy Conservation in Yahoo! 2010 Outstanding Vehicle Competition respectively.
- (9) Received Award of Outstanding Corporation for Environmental Protection and Green Energy, Taoyuan County.
- (10) Received double award in the first National Training Quality Award.
- (11) Lancer received Award of High Efficiency in Energy Conservation and Award of Fun in Driving in Yahoo! 2011 Outstanding Vehicle Competition.

Company Profile

- (12) Won the second Taiwan Green Classics Award, Ministry of Economic Affairs.
- (13) Won "Quality Award" in 2013 Business Next Green Brand Survey.
- (14) Ranked Number 2 in 2013 Automobile Industry of the Excellence of Corporate Social Responsibility of Common Wealth Magazine.
- (15) The Electric Scooter, e-moving-Super won the 22th Taiwan Excellence.
- (16) The Mid-Motor Kit of GreenTrans has won the 23rd Taiwan Excellence from Ministry of Economic Affairs.
- (17) Won the 2014 9th National HRD InnoPrize from Ministry of Labor.
- (18) Ranked Number 1 in 2014 Automobile Industry of the Excellence of Corporate Social Responsibility of Common Wealth Magazine.
- (19) The China Motor Mitsubishi service system ranked number 1 in 2014 J.D. Power Customer Satisfaction Study of domestic car.
- (20) Honored as "Top 5% of Listed Companies" based on the performance in the corporate governance evaluation of 1st term organized by TWSE.
- (21) Honored as 1st place of Commonwealth CSR Award – Automobile Industry in 2015.
- (22) Receive the large-scale enterprise award, 2015 National Talent Development Awards, by Workforce Development Agency, Ministry of Labor.
- (23) Honored as "Top 5% of Listed Companies" based on the performance in the corporate governance evaluation of 2nd term organized by TWSE.
- (24) Honored as 1st place of Commonwealth CSR Award – Automobile Industry in 2016.
- (25) Achieved Ministry of Economic Affairs (MOEA) Excellence Award for Energy Conservation in 2016.
- (26) Honored as "Top 5% of Listed Companies" based on the performance in the corporate governance evaluation of 3rd term organized by TWSE.
- (27) Achieved 8th place for the large enterprises in the Excellence of Corporate Social Responsibility of Common Wealth Magazine in 2017. Achieved first place for automotive industries in the Excellence of Corporate Social Responsibility of Common Wealth Magazine 4 years consecutively.
- (28) The China Motor Mitsubishi service system ranked number 1 in 2017 J.D. Power Customer Satisfaction Study of domestic car.
- (29) Received Award of Outstanding Corporation for Taoyuan County.

IV. Charity

Education

- (1) We subsidize the “Reading” project for a long term and have a designated reading car running around Taiwan.

To minimize the knowledge gap between the city and the county, CMC has subsidized the “Reading” project of the Common Wealth Magazine Educational Foundation for a long time. We have adopted 200 remote primary schools to lead kids living in remote areas to love the world of reading. We have donated 5 designated cars since 2004 for continuous tour between remote primary schools in Taiwan, accumulating over 172,027 kilometers, which are the same as circling Taiwan for 129 times, bringing good books and hope for remote primary schools.

- (2) We encourage people to read and donated 31,380 tourist books to 6 city libraries.

Regarding the rise of the Internet generation, the reading amount in Taiwan is gradually decreasing every year. To encourage people to read, we promoted reading again in 2017, donating 31,380 tourist books to 6 city libraries and their branches, amounting to NT\$7 million. With the donation, we hope 16 million citizens in these 6 cities can read more and tell them that “travels far knows much” through tourist books and encourage them to broaden their horizons.

In Combination with the Automobile Industry

- (1) Guarding happiness - Shuttling with love.

CMC started the “Guarding Happiness” project since the end of 2016. We continue to donate 3 designated cars to “Wufeng Church”, “Fengtian little league” and “Pingtung Wanluan Happiness Association”, guarding the shuttle safety of children in remote villages. Moreover, through the “Guarding Children’s Car Safety” plan in the “Guarding Happiness” project, we realize the dream of “Tabitha Care Association” in Xincheng, Hualien. We provided the association with 30 thousand as a subsidy for car purchasing which successfully gave them the chance to replace the 10-year-old Delica.

Company Profile

- (2) Vehicle maintenance service tour to guard the vehicle safety in remote villages.

We have highly concentrated locations to protect the safety of the owners when driving. Besides the 141 maintenance factories, we provide more security for owners in the remote villages. We combined with the maintenance service system of Fortune Motors and Shung Ye Motors to undergo the “Vehicle Maintenance Service Tour” project in the areas that have lower density of maintenance factories such as remote villages, areas along the seashore and mountain areas. We have repaired 964 cars ever since the project started in 2016.

- (3) CMC rooting downward, donating GRAND LANCER experimental cars.

With the cooperative education system, we have trained nearly 2,000 automobile professionals. To activate the technical and vocational education system, and fulfill the requirement of devices for practice teaching, we continually donated 28 experimental cars to the technical and vocational schools in Taiwan since 2015. We donated 11 emovings for educational need for co-organizing the “Department of Education - Technical Contest for Secondary School Student - Basic Introduction of Automobile and Motorcycle in the Mechanical Engineering Field” contest for technical schools in New Taipei City in early 2018. We further donated 11 GRAND LANCERs to Chien Hsin University of Science and Technology, National Tseng-Wen Senior Agricultural & Industrial Vocational School, National Kangshan Senior High School, Chi-Ying Senior High School, Cheng-Kung Vocational Senior High School and ARTC for the need of internship and research study for students in the automobile related departments.

Richly Cultivating the Aborigines

- (1) CMC stands for the aborigines’ own production and marketing, purchasing fresh organic vegetables.

To support the aborigines’ own production and marketing, we adopt the “Cooperation between Farmers and Corporations” measure, uniting small farmers from the tribes in Taiwan and purchase the organic vegetables from aboriginal people with lower production or unstable selling channels at a reasonable price. Through internal promotion, we hold 3 vegetable group buying activities every year and started to purchase these vegetables for our employees’ restaurant since 2015. CMC purchased about 12 thousand kilograms of organic vegetables by the end of 2017.

- (2) Sports days running in remote primary schools in Taiwan, writing childhood memories for children.

To fulfill the dreams for children in remote villages, CMC Mitsubishi started to hold “Remote Primary School Sports Day” since 2016 and the public welcomed it. In 2017, CMC Mitsubishi proceeded to southern area of Taiwan, Nantou and Chiayi, to hold 2 cross-school united sports day for Cian Ciou Elementary School, Kuang-Fu Elementary School, Chung-He Elementary School and Chung-Shing Elementary School. We held the remote primary school sports day for 2 years straight (2016 and 2017), benefiting 308 children in remote villages in Taiwan.

- (3) “Dream Fulfilling Project” - Employees doing good for the tribes

To encourage our employees to participate in the welfare activities, we promoted the “Dream Fulfilling Project”. We encourage employees to voluntarily plan and execute small charitable events for the tribes based on the background of the aboriginals. CMC also provides 3 days of volunteering holidays annually and cars designated for charitable events for our employees. In 2017, we held 3 transportation safety camps in remote villages and helped children in the “Tabitha Care Association” in Xincheng, Hualien hold the charity bazaar to sell pound cake for raising money for their oncoming classroom construction on the hillside, bringing the love of CMC into remote villages.

- (4) Yang Dai-Kang working as a baseball coach to personally deliver the baseball supplies with the GRAND LANCER motorcade.

CMC Mitsubishi has always been concerned about baseball development in Taiwan. In 2017, we invited Yang Dai-Kang, a Taiwanese expatriate baseball player in Japan, to form a motorcade with car owners of GRAND LANCER, holding a 1-day baseball camp in Wu-Feng Elementary School in Hsinchu County. Yang Dai-Kang personally guided baseball techniques for the children with the car owners giving assistance. Together we sent love to them and cultivated baseball education deeply.

Reciprocation in the Urban and Rural Areas

- (1) Homecoming Youths: Going home and let happiness lead.

CMC Mitsubishi focusing on youth emigration from remote villages - Million dollar rewards to encourage hardworking youths to return home.

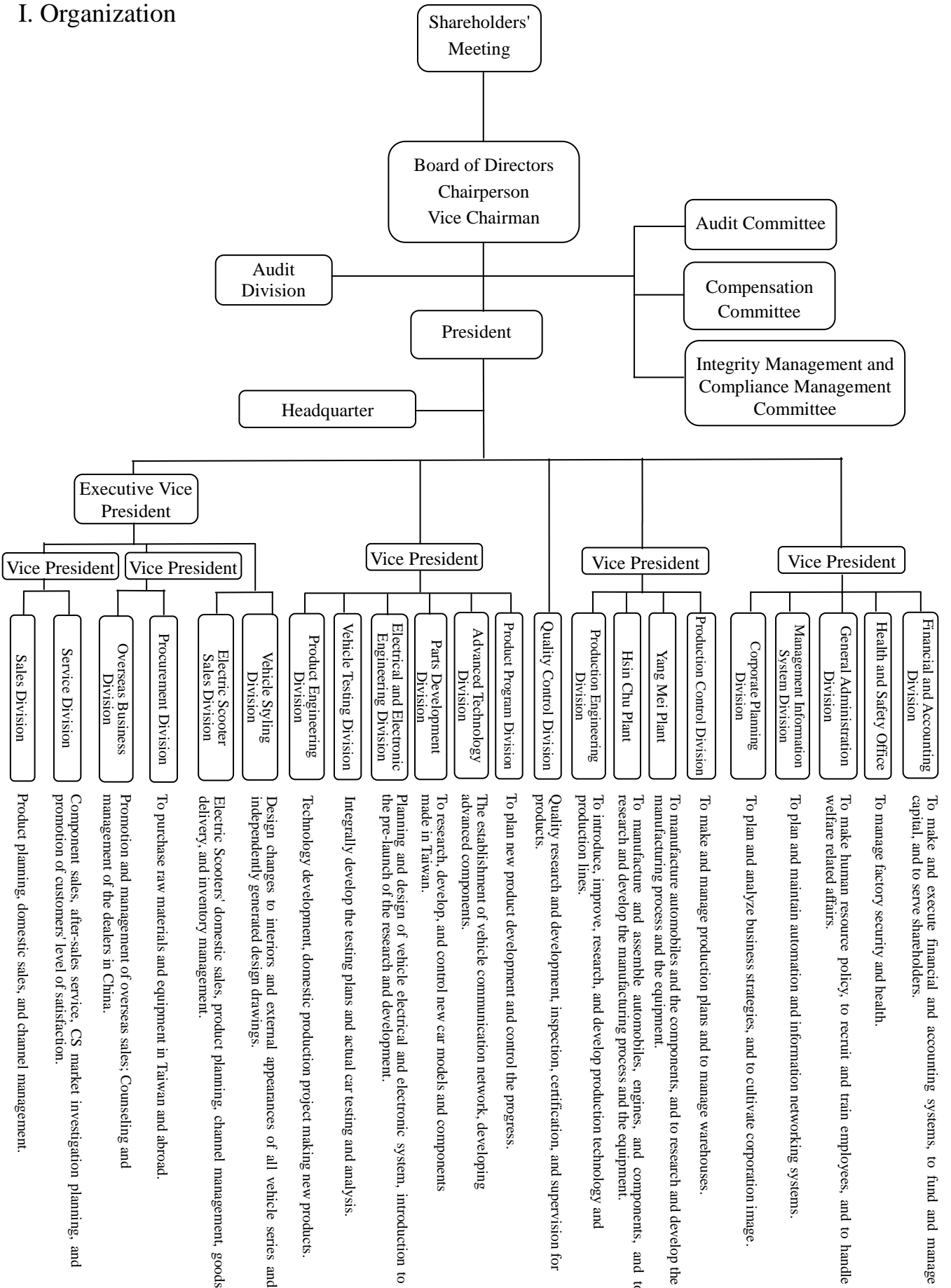
Company Profile

To re-establish happiness amongst the public, CMC Mitsubishi built a brand value of “Setting out for Happiness”, allowing car owners to join us and discover the support provided for them. In 2016, CMC Mitsubishi used the strength of the corporation to draw the public to pay better attention on the social problems caused by “Population Loss in Remote Villages in Taiwan”. Calling more than 225 hard-working youths to return home to work. With the project “Hard-working Youths’ Stories - Seeing the Beam”, we discovered 12 hard-working youths’ stories in 2017.

- (2) CMC protecting the environment, cleaning the beach and mountains.

CMC has long term commitments to environmental protection strategies and we turn our attention on the environment into concrete actions. Besides setting a goal to conserve energy and reduce carbon for Hsinchu and Yangmei plants, we especially include environment protection related activities into our long term promoted volunteer activity strategies since 2017. The employees spontaneously established the environmental protection volunteer club, cleaning 1,250 kilograms of garbage in 4 environmental protection activities held in 2017, doing our share of help for protecting the environment.

I. Organization



Corporate Governance

II. Directors and Management Team

(I) Information Regarding Board of Directors

Title	Nationality or Country of Incorporation	Name	Gender	Date Elected	First Elected Date	Term	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding	
							Shares	%	Shares	%	Shares	%
Chairperson	R. O. C.	Yulon Motor Co., Ltd. Representative: Kenneth K. T. Yen	Male	2016/6/24	1986/7/1	3 years	111,480,444 *16,621,212	8.05 1.20	111,480,444 *16,621,212	8.05 1.20	-	-
Vice Chairman	R. O. C.	Tai Yuen Textile Co., Ltd. Representative: Hsin-Tai Liu	Male	2016/6/24	2008/8/18	3 years	348,589,538 *14,560	25.19 -	348,589,538 *14,560	25.19 -	-	-
Director	Japan	Mitsubishi Motors Corporation Representative: Katsuro Asaoka (Note 1)	Male	2016/6/24	2013/4/1	3 years	193,768,273	14.00	193,768,273	14.00	-	-

* indicates personal owned shares

Note 1: Mitsubishi Motors Corporation assigned Mr. Eiichi Takasawa in replacement of Mr. Katsuro Asaoka as its representative from May 1, 2018.

(Continued on the next page)

Corporate Governance

March 31, 2018

Shareholdings in Others' Names		Education and Selected Past Positions	Current Positions	Other Directors, Board of Directors, or Supervisors Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Honorary Doctor of Business, St. John's University of New York (Positions are described as those in the right column.)	Chairperson, Yulon Motor Co., Ltd. Chairperson, Yulon Nissan Motor Co., Ltd. Chairperson, Tai Yuen Textile Co., Ltd. Chairperson, Hua-chuang Automobile Information Technical Center Co., Ltd. Chairperson, Luxgen Motor Co., Ltd. Chairperson, Fortune Motors Co., Ltd. Vice Chairman, Winsome Development Co., Ltd. For details, please refer "Summary of Affiliated Companies."	Director	Li-lien Chen	Spouse
-	-	Executives Program of Graduate School of Business Administration, National Chengchi Univeristy Dept. of Mechanical Engineering, National Cheng Kung University President, China Motors Corporation Positions are described as those in the right column.	Director, Hua-chuang Automobile Information Technical Center Co., Ltd. Director, South East (Fujian) Motor Co., Ltd. Director, Yen Tjing Ling Industrial Development Foundation Chairperson, Automotive Research & Testing Center, etc. For details, please refer "Summary of Affiliated Companies."	-	-	-
-	-	Program on Chinese, Dept. of Tokyo University of Foreign Studies Positions are described as those in the right column.	Director, Fortune Motors Co., Ltd. Assistant General Manager, North Asia B-Dept., North Asia Office, Mitsubishi Motors Corporation	-	-	-

Corporate Governance

(Continued from the previous page)

Title	Nationality or Country of Incorporation	Name	Gender	Date Elected	Date First Elected	Term	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding	
							Shares	%	Shares	%	Shares	%
Director	R. O. C.	Tai Yuen Textile Co., Ltd., Representative: Hsin-I Lin	Male	2016/6/24	1984/7/20	3 years	348,589,538	25.19	348,589,538	25.19	-	-
Director	R. O. C.	Yulon Motor Co., Ltd. Representative: Li-Lien Chen	Female	2016/6/24	1994/7/1	3 years	111,480,444	8.05	111,480,444	8.05	16,621,212	1.20
Director	R. O. C.	Tai-Yuen Textile Co., Ltd., Representative: Kuo-Rong Chen	Male	2016/6/24	2004/6/24	3 years	348,589,538	25.19	348,589,538	25.19	-	-

(Continued on the next page)

Corporate Governance

Shareholdings in Others' Names		Education and Selected Past Positions	Current Positions	Other Directors, Board of Directors, or Supervisors Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Dept. of Mechanical Engineering, National Cheng Kung University Deputy Minister, Executive Yuan and Minister, Council for Economic Planning and Development Minister, Ministry of Economic Affairs Chairperson, Taiwan Transportation Vehicle Manufacturers Association Vice Chairman and President, China Motor Corporation	Director, Yulon Motor Co., Ltd. Independent Director, E. SUN Financial Holding Co., Ltd. Managing & Independent Director, Shihlin electric & engineering Corporation Director, South East (Fujian) Motor Co., Ltd.	-	-	-
-	-	Department of Physical Education, Chinese Culture University Positions are described as those in the right column.	Director, Yulon Motor Co., Ltd. Director, Taiwan Acceptance Corporation Vice Chairman, Tai-Yuen Textile Co., Ltd. Director, Winsome Development Co., Ltd. For details, please refer "Summary of Affiliated Companies."	Chairperson	Kenneth K. T. Yen	Spouse
-	-	Executive Master of Business Administration, National Chiao Tung University Executive vice president & President, Yulon Motors Co., Ltd.	Vice Chairman, Yulon Motor Co., Ltd. Director and Executive Assistant to the Chairperson, Yulon Nissan Motor Co., Ltd. Chairperson, Taiwan Acceptance Corporation Director, Tai-Yuen Textile Co., Ltd. Director, Hua-chuang Automobile Information Technical Center Co., Ltd. Vice Chairman, Luxgen Motor Co., Ltd. Director, Winsome Development Co., Ltd. Director, Dong Feng Yulon Motor Co., Ltd. For details, please refer "Summary of Affiliated Companies."	-	-	-

Corporate Governance

(Continued from the previous page)

Title	Nationality or Country of Incorporation	Name	Gender	Date Elected	Date First Elected	Term	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding	
							Shares	%	Shares	%	Shares	%
Director	Japan	Mitsubishi Corporation, Representative: Setsuya Yoshino (Note 2)	Male	2016/6/24	2016/12/1	3 years	66,404,796	4.80	66,404,796	4.80	-	-
Director	R. O. C.	Le Wen Enterprise Co., Ltd. Representative: Chao-Wen Chen	Male	2016/6/24	2016/6/24	3 years	5,539,400	0.40	5,539,400	0.40	-	-

Note 2: Mitsubishi Corporation assigned Mr. Takayasu Yonekura in replacement of Mr. Setsuya Yoshino as its representative from April 1, 2018.

Note 3: Chairperson of ROC Spicer Ltd. was effective from April 17, 2018.

(Continued on the next page)

Corporate Governance

Shareholding in Others' Names		Education and Selected Past Positions	Current Positions	Other Directors, Board of Directors, or Supervisors Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Department of International Relations, Faculty of Law, Hitotsubashi University Positions are described as those in the right column.	Director, Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co., Ltd. General Manager, Motor Vehicle North Asia Dept., Motor Vehicle Business Division, Mitsubishi Corporation	-	-	-
		Executives Program of Graduate School of Business Administration, National Chengchi University Dept. of Chemical Engineering, Chung Yuan Christian University Executive Vice President, China Motor Corporation General Manager, Production Engineering Division, China Motor Corporation	Chairperson, Kian Shen Corporation Chairperson, ROC Spicer Ltd. (Note 3) Director, Fortune Motors Co., Ltd. Director, Shung Ye Motor Enterprise Director, Tokio Marine Newa Insurance Co., Ltd. Director, Hua-chuang Automobile Information Technical Center Co., Ltd. Director, South East (Fujian) Motor Co., Ltd. For details, please refer "Summary of Affiliated Companies."			

Corporate Governance

(Continued from the previous page)

Title	Nationality or Country of Incorporation	Name	Gender	Date Elected	Date First Elected	Term	Shareholding When Elected		Current Shareholding		Spouse and Minor Shareholding	
							Shares	%	Shares	%	Shares	%
Independent Director	R. O. C.	Chen-Chi Hsiao	Male	2016/6/24	2016/6/24	3 years	-	-	-	-	-	-
Independent Director	R. O. C.	Chi-Ching Chen	Male	2016/6/24	2016/6/24	3 years	-	-	-	-	-	-
Independent Director	R. O. C.	Yun-Hua Yang	Male	2016/6/24	2016/6/24	3 years	-	-	-	-	-	-

* indicates personal owned shares..

Corporate Governance

Shareholdings in Others' Names		Education and Selected Past Positions	Current Positions	Other Managers, Directors, or Supervisors Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Department of Accounting, National Chengchi University EMBA, Feng Chia University	Member of Compensation Committee, China Motor Corporation Independent Director, Kian Shen Corporation Vice Chairman of Taiwan Certified Public Account Association Chairman of Taichung Certified Public Account Association	-	-	-
-	-	MBA, Massachusetts Institute of Technology Sloan School of Management Director, GigaMedia Limited Co. Director, Financial One Corp.	Member of Compensation Committee, China Motor Corporation, Kian Shen Corporation	-	-	-
-	-	Ph.D in Law, University of Tuebingen Master of Law, National Taiwan University Professor of Law, National Chengchi University Member of the Law Committee, Ministry of Justice, Executive Yuan Seminar at the Academy for the Judiciary, Ministry of Justice, Executive Yuan	Member of Compensation Committee, Yulon Nissan Motor Co., Ltd. , China Motors Corporation , China Electric Manufacturing Corporation	-	-	-

Corporate Governance

Table 1: Major Shareholders of the Institutional Shareholders

April 29, 2018

Name of Institutional Shareholder	Major Shareholders of the Institutional Shareholders
1. Tai-Yuen Textile Co., Ltd.	1. Yulon Motor Co., Ltd. (20.85%) 2. Yen Tjing Ling Industrial Development Foundation (14.24%) 3. British Virgin Islands Hoffman Brother Investment Company (9.80%) 4. British Virgin Islands Evans Corporation (9.71%) 5. Cayman Islands West Bridge Investment Company (9.13%) 6. Li Yuan Investment Co., Ltd. (7.17%) 7. Yong Shun Investment Corporation (6.82%) 8. Li Peng Investment Co., Ltd. (5.61%) 9. Diamond Hosiery & Thread Co., Ltd. (4.55%) 10. Yuan Wei Investment Co., Ltd. (3.10%)
2. Yulon Motor Co., Ltd.	1. Tai-Yuen Textile Co., Ltd. (18.11%) 2. China Motors Corporation (16.67%) 3. Kenneth K. T. Yen (10.18%) 4. Nan Shan Life Insurance Company, Ltd. (3.70%) 5. Fan-Terh Investment Co., Ltd. (1.58%) 6. Labor Insurance Fund (1.47%) 7. Public Service Pension Fund Management Board (1.34%) 8. Mercuries Life Insurance Co., Ltd. (1.25%) 9. Yen Tjing Ling Industrial Development Foundation (1.09%) 10. New Labor Pension Fund (1.07%)
3. Mitsubishi Motors Corporation	1. Nissan Motor Co., Ltd. (33.99%) 2. Mitsubishi Corporation (9.23%) 3. Mitsubishi Heavy Industries, Ltd (8.34%) 4. Bank of Tokyo-Mitsubishi UFJ, Ltd (3.26%) 5. Japan Trustee Services Bank (Trust Account) (2.15%) 6. The Master Trust Bank of Japan (Trust Account) (1.84%) 7. MHI Automotive Capital LLC MMC stock management anonymous combination 2 (1.59%) 8. BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1 (1.28%) 9. Japan Trustee Services Bank (Trust Account 9) (0.98%) 10. Japan Trustee Services Bank (Trust Account 5) (0.93%)
4. Mitsubishi Corporation	1. Japan Trustee Services Bank (Trustee) (8.26%) 2. The Master Trust Bank of Japan (Trust Account) (5.31%) 3. Tokyo Marine & Nichido Fire Insurance Co., Ltd. (4.68%) 4. Meiji Yasuda Life Insurance Company (4.07%) 5. ICHIGO TRUST PTE. LTD. (2.29%) 6. The Master Trust Bank of Japan (Mitsubishi Heavy Industries Ltd. • Retirement Benefits Trust Account) (2.02%) 7. STATE STREET BANK WEST CLIENT - TREATY 505234 (1.73%) 8. Japan Trustee Services Bank (Trust Account 5) (1.66%) 9. Japan Trustee Services Bank (Trust Account 9) (1.40%) 10. Japan Trustee Services Bank (Trust Account 1) (1.23%)
5. Le Wen Enterprise Co., Ltd.	1. Kenneth K. T. Yen (64.79%) 2. Wei Tai Investment Co., Ltd. (19.05%) 3. Wavin Investment Corp. (16.08%) 4. Fan-Terh Investment Co., Ltd. (0.04%) 5. Li-lien Chen (0.02%) 6. Wei-kung Chi (0.02%)

Corporate Governance

Table 2: The Major Shareholders of the Major Shareholders of the Institutional Shareholders in Table 1

April 29, 2018

Corporation Name	Major Shareholders of the Corporation
1. Yen Tjing Ling Industrial Development Foundation	Foundation constituted as a juristic person
2. British Virgin Islands Hoffman Brother Investment Company	The information is not available due to the limitations of local practices.
3. British Virgin Islands Evans Corporation	The information is not available due to the limitations of local practices.
4. Cayman Islands West Bridge Investment Company	The information is not available due to the limitations of local practices.
5. Li Yuan Investment Co., Ltd.	1. Vivian Wu Industry and Commerce ECCC Foundation (99.126%) 2. Diamond Hosiery & Thread Co., Ltd. (0.869%) 3. Fan-Terh Investment Co., Ltd. (0.001%) 4. Wei Tai Investment Co., Ltd. (0.001%) 5. Le Wen Enterprise Co., Ltd. (0.001%) 6. Vincent Investment Co., Ltd. (0.001%) 7. Wavin Investment Corp. (0.001%)
6. Yong Shun Investment Corporation	1. Vivian Wu Industry and Commerce ECCC Foundation (99.083%) 2. Diamond Hosiery & Thread Co., Ltd. (0.912%) 3. Fan-Terh Investment Co., Ltd. (0.001%) 4. Wei Tai Investment Co., Ltd. (0.001%) 5. Le Wen Enterprise Co., Ltd. (0.001%) 6. Vincent Investment Co., Ltd. (0.001%) 7. Wavin Investment Corp. (0.001%)
7. Li Peng Investment Co., Ltd.	1. Vivian Wu Industry and Commerce ECCC Foundation (98.993%) 2. Diamond Hosiery & Thread Co., Ltd. (1.002%) 3. Fan-Terh Investment Co., Ltd. (0.001%) 4. Wei Tai Investment Co., Ltd. (0.001%) 5. Le Wen Enterprise Co., Ltd. (0.001%) 6. Vincent Investment Co., Ltd. (0.001%) 7. Wavin Investment Corp. (0.001%)
8. Diamond Hosiery & Thread Co., Ltd.	1. British Virgin Islands Wanda Company (72.51%) 2. Tai -Yuen Textile Co., Ltd. (21.97%) 3. Yulon Motor Co., Ltd. (5.09%) 4. Vivian Wu Industry and Commerce ECCC Foundation (0.1684%) 5. Le Wen Enterprise Co., Ltd. (0.13%) 6. Wavin Investment Corp. (0.13%) 7. Kenneth K. T. Yen (0.0006%)
9. Yuan Wei Investment Co., Ltd.	1. Vivian Wu Industry and Commerce ECCC Foundation (91.513%) 2. Diamond Hosiery & Thread Co., Ltd (8.477%) 3. Fan-Terh Investment Co., Ltd. (0.002%) 4. Wei Tai Investment Co., Ltd. (0.002%) 5. Le Wen Enterprise Co., Ltd. (0.002%) 6. Vincent Investment Co., Ltd. (0.002%) 7. Wavin Investment Corp. (0.002%)

Corporate Governance

Corporation Name	Major Shareholders of the Corporation
10. China Motor Corporation	<ol style="list-style-type: none"> 1. Tai-Yuen Textile Co., Ltd. (25.19%) 2. Mitsubishi Motors Corporation (14.00%) 3. Yulon Motor Co., Ltd. (8.05%) 4. Diamond Hosiery & Thread Co., Ltd (6.76%) 5. Mitsubishi Corporation (4.80%) 6. Cathay Life Insurance Co., Ltd. (3.64%) 7. Nan Shan Llife Insurance Company, Ltd. (1.27%) 8. Kenneth K. T. Yen (1.20%) 9. Investment account at the Norges Bank under the custody of Citibank (1.13%) 10. Taiwan Life Insurance Co., Ltd. (0.96%)
11. Nan Shan Life Insurance Company, Ltd.	<ol style="list-style-type: none"> 1. First Commercial Bank Trustee Account For Representative of Ruen Chen Investment Holding Co., Ltd. (75.14%) 2. Ruen Chen Investment Holding Co., Ltd. (15.48%) 3. Y. T. Du (3.25%) 4. Ruen Hua Dyeing & Weaving Co., Ltd. (0.28%) 5. Ruentex Leasing Co., Ltd. (0.15%) 6. Chi-Pin Investment Company (0.11%) 7. Boon-Teik Koay (0.11%) 8. Pou Huei Investments Co., Ltd. (0.05%) 9. Pou Hwang Investments Co., Ltd. (0.05%) 10. Pou Yih Investments Co., Ltd. (0.05%) 11. Pou Chi Investments Co., Ltd. (0.05%)
12. Fan-Terh Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Wei Tai Investment Co., Ltd. (33.36%) 2. Wavin Investment Corp. (33.30%) 3. Le Wen Enterprise Co., Ltd. (33.30%) 4. Chuan-Lin Zhu (0.02%) 5. Wei Kung Chi (0.02%)
13. Labor Insurance Fund	Not applicable
14. Public Service Pension Fund Management Board	Not applicable
15. Mercuries Life Insurance Co., Ltd.	<ol style="list-style-type: none"> 1. MERCURIES & ASSOCIATES, HOLDING LTD. (43.14%) 2. Shang Lin Investment Co., Ltd. (6.11%) 3. Shu Ren Investment Co., Ltd. (5.44%) 4. Mercuries Fu Bao Co., Ltd. (2.74%) 5. New Labor Pension Fund (1.63%) 6. China Life Insurance Co., Ltd. (0.85%) 7. JPMorgan Chase Bank, N.A., Taipei Branch in Custody foranguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds (0.74%) 8. Investment account at the Norges Bank under the custody of Citibank (0.74%) 9. JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (0.62%) 10. Ming-Jung Hsu (0.60%)
16. New Labor Pension Fund	Not applicable

Corporate Governance

Corporation Name	Major Shareholders of the Corporation
17. Nissan Motor Co., Ltd.	<ol style="list-style-type: none"> 1. Renault S.A. (43.4%) 2. The Chase Manhattan Bank, N.A. London Special Account No.1 (3.33%) 3. Japan Trustee Services Bank (Trustee Account) (2.96%) 4. The Master Trust Bank of Japan (Trustee Account) (2.56%) 5. Japan Trustee Services Bank (Trustee Account 9) (1.48%) 6. Nippon Life Insurance Company (1.26%) 7. Japan Trustee Services Bank (Trustee Account 5) (1.17%) 8. State Street Bank & Trust Company (0.94%) 9. Japan Trustee Services Bank (Trustee Account 7) (0.83%) 10. Japan Trustee Services Bank (Trustee Account 2) (0.79%)
18. Mitsubishi Heavy Industries Co., Ltd.	<ol style="list-style-type: none"> 1. Japan Trustee Services Bank (Trustee Account) (4.63%) 2. The Master Trust Bank of Japan (Trustee Account) (4.62%) 3. The Nomura Trust and Banking Co., Ltd. (Retirement Benefits Trust • Bank of Tokyo-Mitsubishi UFJ, Ltd. Account) (2.52%) 4. Meiji Yasuda Life Insurance Company (2.37%) 5. Japan Trustee Services Bank (Trustee Account 5) (1.87%) 6. STATE STREET BANK WEST CLIENT - TREATY 505234 (1.55%) 7. Japan Trustee Services Bank (Trustee Account 7) (1.38%) 8. Japan Trustee Services Bank (Trustee Account 1) (1.37%) 9. Japan Trustee Services Bank (Trustee Account 2) (1.35%) 10. Mitsubishi Heavy Industries Shareholding Commission (1.08%)
19. Bank of Tokyo-Mitsubishi UFJ, Ltd.	Mitsubishi UFJ FINANCIAL GROUP (100%)
20. Japan Trustee Service Bank(Trustee Account)	<ol style="list-style-type: none"> 1. Sumitomo TRUST HOLDINGS (66.66%) 2. RESONA Bank (33.33%)
21. The Master Trust Bank of Japan (Trustee Account)	<ol style="list-style-type: none"> 1. Mitsubishi UFJ Trust and Banking Corporation (46.50%) 2. Nippon Life Insurance Co. (33.50%) 3. Meiji Yasuda Life Insurance Co. (10.00%) 4. The Norinchukin Trust & Banking Co., Ltd. (10.00%)
22. MHI Automotive Capital LLC MMC stock management anonymous combination 2	The information is not available due to the limitations of local practices.
23. BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	The information is not available due to the limitations of local practices.
24. Japan Trustee Services Bank (Trust Account 9)	The information is not available due to the limitations of local practices.
25. Japan Trustee Services Bank (Trust Account 5)	The information is not available due to the limitations of local practices.

Corporate Governance

Corporation Name	Major Shareholders of the Corporation
26. Tokio Marine & Nichido Fire Insurance Co., Ltd.	Tokio Marine Holdings Co. (100%)
27. Meiji Yasuda Life Insurance Company	The information is not available due to the limitations of local practices.
28. ICHIGO TRUST PTE. LTD.	The information is not available due to the limitations of local practices.
29. The Master Trust Bank of Japan (Mitsubishi Heavy Industries Ltd. • Retirement Benefits Trust Account)	The information is not available due to the limitations of local practices.
30. STATE STREET BANK WEST CLIENT – TREATY 505234	The information is not available due to the limitations of local practices.
31. Japan Trustee Services Bank (Trustee Account 1)	The information is not available due to the limitations of local practices.
32. Wei Tai Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Kenneth K. T. Yen (99.88%) 2. Fan-Terh Investment Co., Ltd. (0.04%) 3. Wavin Investment Co., Ltd. (0.02%) 4. Chuan-Lin Zhu (0.02%) 5. Li-Lien Chen (0.02%) 6. Wei Kung Chi (0.02%)
33. Wavin Investment Co., Ltd.	<ol style="list-style-type: none"> 1. Kenneth K. T. Yen (99.4%) 2. Wei Tai Investment Co., Ltd. (0.1%) 3. Le Wen Enterprise Co., Ltd. (0.1%) 4. Fan-Terh Investment Co., Ltd. (0.1%) 5. Jing Yu Investment Co., Ltd. (0.1%) 6. Yu Xin Investment Co., Ltd. (0.1%) 7. Li-Lien Chen (0.1%)

Corporate Governance

(II) Directors' Professional Qualifications and Independent Analysis

March 31, 2018

Criteria	Meet the Following Professional Qualification Requirements Together with at Least Five Years Work Experience			Criteria (Note)										Number of Other Taiwanese Public Companies Currently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College, or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Name														
Kenneth K. T. Yen	-	-	✓	✓	-	-	-	-	-	✓	-	✓	-	-
Hsin-Tai Liu	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	-	-
Katsuro Asaoka	-	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	-
Hsin-I Lin	-	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	2
Li-Lien Chen	-	-	✓	✓	-	-	-	-	-	✓	-	✓	-	-
Kuo-Rong Chen	-	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	-
Setsuya Yoshino	-	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	-
Chao-Wen Chen	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	-	-
Chen-Chi Hsiao	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chi-Ching Chen	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Yun-Hua Yang	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note: If the Directors or Supervisors meet any of the following situations two years before being elected or during the term of office, please mark “✓” in the appropriate corresponding boxes.

- Not an employee of the Corporation or any of its affiliates.
- Not a director or supervisor of an affiliated business of the Company. However, this restriction does not apply in cases where the person is an independent director of the Company, its parent or subsidiary established in pursuant to this law or local laws.
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, , minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the Corporation or ranks as one of its top ten shareholders.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs.
- Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the Corporation or ranks as one of its top five shareholders.
- Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the Corporation.
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Corporation or to any affiliate of the Corporation, or a spouse thereof.
- Not a spouse, or relative within the second degree of the kinship with other directors.
- Not been a person of any conditions defined in Article 30 of the Company Law.
- Not a government, juridical person, or its representative elected under the definition of Article 27 of the Company Law.

Corporate Governance

(III) Information Regarding President, Executive Vice President, Vice President, and General Manager of Each Department

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse and Minor Shareholding		Shareholdings in Others' Names	
					Shares	%	Shares	%	Shares	%
President	R. O. C.	Chao-Wen Chen	Male	2015/6/1	-	-	-	-	-	-
Executive Vice President	R. O. C.	Te-Jun Lo	Male	2011/2/1	47,356	-	231	-	-	-
Vice President	R. O. C.	Ching-Wu Chien	Male	2014/1/1	-	-	-	-	-	-

Note: Chairperson of ROC Spicer Ltd. was effective from April 17, 2018.

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Corporate Governance

March 31, 2018

Education and Selected Past Positions	Current Positions in Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
<p>Executives Program of Graduate School of Business Administration, National Chengchi University Dept. of Chemical Engineering, Chung Yuan Christian University Executive Vice President, China Motor Corporation General Manager, Production Engineering Division, China Motor Corporation</p>	<p>Chairperson, Kian Shen Corporation Chairperson, ROC Spicer Ltd. (Note) Director, Fortune Motors Co., Ltd. Director, Shung Ye Motor Enterprise Director, Tokio Marine Nawa Insurance Co., Ltd. Director, Hua-chuang Automobile Information Technical Center Co., Ltd. Director, South East (Fujian) Motor Co., Ltd. For details, please refer "Summary of Affiliated Companies."</p>	-	-	-
<p>Executive Master of Business Administration, School of Management, National Central University Vice President, China Motor Corporation General Manager, Marketing Division, China Motor Corporation Plant General Manager, Yang Mei Plant, China Motor Corporation General Manager, Procurement Division, China Motor Corporation General Manager, Service Division, China Motor Corporation General Manager, Quality Control Division, China Motor Corporation</p>	<p>Director, Fortune Motors Co., Ltd. Director, Shung Ye Motor Enterprise Director, CARPLUS Auto Leasing Corporation Director, Shin Gan Co., Ltd. Director, Sinjiang Co., Ltd. Vice Chairman, Zhejiang Kangda Motor Industry And Trading Co., Ltd. For details, please refer "Summary of Affiliated Companies."</p>	-	-	-
<p>MBA Program, National Chengchi University General Manager, Sales Division, China Motor Corporation General Manager, Marketing Division, China Motor Corporation</p>	<p>Director and President, Brilliant Insight International Consultancy Service Co., Ltd. Director, Yulon IT Solutions Co., Ltd. Director, Zhejiang Kangda Motor Industry And Trading Co., Ltd. Director, Fujian Benz Automotive Co., Ltd. For details, please refer "Summary of Affiliated Companies."</p>	-	-	-

Corporate Governance

(Continued from the previous page)

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse and Minor Shareholding		Shareholdings in Others' Names	
					Shares	%	Shares	%	Shares	%
Vice President	R. O. C.	Shing JuChen	Male	2016/1/1	11,553	-	20,000	-	-	-
Vice President	R. O. C.	Hung-Ching Yang	Male	2016/1/1	-	-	-	-	-	-
Vice President	R. O. C.	Min-Chang Lee	Male	2016/4/1	1,805	-	-	-	-	-

(Continued on the next page)

Corporate Governance

Education and Selected Past Positions	Current Positions in Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
<p>Department of Mechanical and Computer-Aided Engineering, Feng Chia University General Manager, Product Engineering Division General Manager, Product Program and Testing Division, China Motor Corporation Project General Manager, Engineering Division, China Motor Corporation</p>	<p>Director, Uni-Calsonic Corp. Director, Yue Ki Industrial Co., Ltd. Director, China Engine (Fujian) Co., Ltd. For details, please refer "Summary of Affiliated Companies."</p>	-	-	-
<p>Department of Mechanical and Electromechanical Engineering, National Sun Yat-sen University General Manager, Parts Development Division Project General Manager, Electrical and Electronic Engineering Division, China Motor Corporation</p>	<p>Director, Uni Auto Parts Manufacture Co., Ltd. Director, Uni-Calsonic Corp. Director, ROC Spicer Ltd. Director, Taiway Industry Co., Ltd. Director, Hangzhou Lianrun Motor Parts Co., Ltd. Director, Xin Mi(Cayman) Co., Ltd. For details, please refer "Summary of Affiliated Companies."</p>	-	-	-
<p>Department of Mechanical, National Taipei University of Technology Gr. Leader of Development Division and Procurement Division, South East (Fujian) Motor Co., Ltd. General Manager, Quality Control Division General Manager, Parts Development Division</p>	<p>Director, ROC Spicer Ltd. Director, Xin Mi Co., Ltd. Director, Xin Mi(Cayman) Co., Ltd. Director, Fuzhou Fushiang Motor Co., Ltd Director, Fuzhou Lien Hong Transportation Equipment Co., Ltd.</p>	-	-	-

Corporate Governance

(Continued from the previous page)

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse and Minor Shareholding		Shareholdings in Others' Names	
					Shares	%	Shares	%	Shares	%
Special Assistant (Vice President)	R. O. C.	Koju Huang	Male	2016/12/19	-	-	-	-	-	-
Vice President	R. O. C.	Chiung-chih Tseng	Male	2005/1/1	46,415	-	-	-	-	-
Accounting and Finance Supervisor	R. O. C.	Mei-Chu Tai	Female	2010/4/1	-	-	-	-	-	-

Corporate Governance

Education and Selected Past Positions	Current Positions in Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
<p>Bachelor of Science in Transportation / Industrial Design Art Center College of Design California, USA</p> <p>Graphic / Industrial Design Pasadena City College California, USA</p> <p>Design director of Styling Division (Yulon Motor Corporation, Yulon Nissan Motor Corporation, Hua-Chuang Automobile Information Technical Center Corporation, China Motor Corporation)</p>	None	-	-	-
<p>Department of Mechanical and Electro-Mechanical Engineering, Tamkang University</p> <p>Project General Manager, Procurement Division, China Motor Corporation</p>	<p>Supervisor, Fortune Motors Co., Ltd</p> <p>Supervisor, Shung Ye Motor Enterprise</p> <p>For details, please refer “Summary of Affiliated Companies.”</p>	-	-	-
<p>Executive Master of Business Administration, National Chiao Tung University</p> <p>Project General Manager, Financial and Accounting Division, China Motor Corporation</p>	<p>Supervisor, Hua-Chuang Automobile Information Technical Center Co., Ltd.</p> <p>Supervisor, Xin Mi Co., Ltd.</p> <p>Supervisor, Zhejiang Kangda Motor Industry And Trading Co., Ltd.</p> <p>Supervisor, Fuzhou Fushiang Motor Co., Ltd.</p> <p>Supervisor, Fuzhou Xin Mi Electric Co., Ltd.</p> <p>For details, please refer “Summary of Affiliated Companies.”</p>	-	-	-

Corporate Governance

(IV) Remuneration Paid to Board of Directors, Supervisors, President, and Executive Vice President in the Latest Year

1. Remuneration Paid to Directors

Title	Name	Director's Remuneration								Total Remuneration (A+B+C+D) as a % of Net Income	
		Compensation (A)		Pensions(B)		Remuneration (C)		Allowances(D)		From the Corporation	From All Consolidated Entities
		From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities		
Chairperson	Kenneth K. T. Yen	14,972	15,452	-	-	22,036 (Note1)	22,036	4,939 (Note2)	5,059	1.02	1.04
Vice Chairman	Hsin-Tai Liu										
Director	Katsuro Asaoka (Note 1)										
Director	Hsin I Lin										
Director	Li-Lien Chen										
Director	Kuo-Rong Chen										
Director	Setsuya Yoshino (Note 1)										
Director	Chao-Wen Chen										
Independent Director	Chen-Chi Hsiao										
Independent Director	Chi-Ching Chen										
Independent Director	Yun-Hua Yang										

In addition to the aforementioned disclosures, any remuneration received in the most recent year by the directors of the Company for rendering services (such as serving as a non-employed consultant) to any company listed in the Financial Report: None.

Note : 1. The earnings distribution was paid to Corporate Directors but not its representatives.

- (1) Chairperson Kenneth K. T. Yen and Director Li-Lien Chen are representatives of Yulon Motor Co., Ltd.
 - (2) Vice Chairman Hsin-Tai Liu, Director Hsin-I Lin and Kuo-Rong Chen are representatives of Tai-Yuen Textile Co., Ltd.
 - (3) Director Chao-Wen Chen is representatives of Le Wen Enterprise Co., Ltd.
 - (4) Director Katsuro Asaoka is representative of Mitsubishi Motors Corporation. Mitsubishi Motors Corporation assigned Mr. Eiichi Takasawa in replacement of Mr. Katsuro Asaoka as its representative from May 1, 2018.
 - (5) Director Setsuya Yoshino is representative of Mitsubishi Corporation. Mitsubishi Corporation assigned Mr. Takayasu Yonekura in replacement of Mr. Setsuya Yoshino as its representative from April 1, 2018.
2. The above-mentioned figures include depreciation expense for official business cars NT\$282 thousand, gasoline NT\$42 thousand, and other expenses NT\$9 thousand. Besides, compensation paid to the drivers is NT\$815 thousand.

Corporate Governance

Unit: NT\$thousands/thousand shares

Compensation Earned by a Director Who is an Employee of the Corporation or of the Corporation's Consolidated Entities								Total Compensation (A+B+C+D+E+F+G) as a % of Net Income (%)		Compensation Paid to Directors from Non- consolidated Affiliates (J)
Compensation, Bonuses, and Allowances (E)		Pensions (F)		Employee Compensation (G)				From the Corporation	From All Consolidated Entities	
From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation		From All Consolidated Entities				
				Cash	Stock	Cash	Stock			
46,699 (Note 2)	47,348	382	382	270	-	270	-	2.17	2.21	21,467

Corporate Governance

Remuneration	Name of Director			
	Total Remuneration(A+B+C+D)		Total Compensation(A+B+C+D+E+F+G)	
	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities and Non-consolidated Affiliate (Note)
Under NT\$2,000,000	Hsin-Tai Liu Katsuro Asaoka Hsin-I Lin Li-Lien Chen Kuo-Rong Chen Setsuya Yoshino Chao-Wen Chen Chen-Chi Hsiao Chi-Ching Chen Yun-Hua Yang	Hsin-Tai Liu Katsuro Asaoka Hsin-I Lin Li-Lien Chen Kuo-Rong Chen Setsuya Yoshino Chao-Wen Chen Chen-Chi Hsiao Chi-Ching Chen Yun-Hua Yang	Katsuro Asaoka Li-Lien Chen Kuo-Rong Chen Setsuya Yoshino Chen-Chi Hsiao Chi-Ching Chen Yun-Hua Yang	Katsuro Asaoka Li-Lien Chen Setsuya Yoshino Chen-Chi Hsiao Chi-Ching Chen Yun-Hua Yang
NT\$2,000,000 ~ NT\$5,000,000	Mitsubishi Motors Corporation Mitsubishi Corporation Le Wen Enterprise Co., Ltd.	Mitsubishi Motors Corporation Mitsubishi Corporation Le Wen Enterprise Co., Ltd.	Mitsubishi Motors Corporation Mitsubishi Corporation Le Wen Enterprise Co., Ltd. Hsin-I Lin	Mitsubishi Motors Corporation Mitsubishi Corporation Le Wen Enterprise Co., Ltd. Kuo-Rong Chen
NT\$5,000,000 ~ NT\$10,000,000	Tai-Yuen Textile Co., Ltd.	Tai-Yuen Textile Co., Ltd.	Tai-Yuen Textile Co., Ltd.	Tai-Yuen Textile Co., Ltd. Hsin-I Lin
NT\$10,000,000 ~ NT\$15,000,000	Yulon Motor Co., Ltd.	Yulon Motor Co., Ltd.	Yulon Motor Co., Ltd.	Yulon Motor Co., Ltd.
NT\$15,000,000 ~ NT\$30,000,000	Kenneth K. T. Yen	Kenneth K. T. Yen	Kenneth K. T. Yen Hsin-Tai Liu Chao-Wen Chen	Hsin-Tai Liu Chao-Wen Chen
NT\$30,000,000 ~ NT\$50,000,000	-	-	-	Kenneth K. T. Yen
NT\$50,000,000 ~ NT\$100,000,000	-	-	-	-
Over NT\$100,000,000	-	-	-	-
Total	11 seats	11 seats	11 seats	11 seats

Note : The remuneration paid to Director from non-consolidated affiliates shall be included in this column.

Corporate Governance

2. Remuneration Paid to Supervisors: None

3. Remuneration Paid to President and Executive Vice President

Unit: NT\$ thousands/thousand shares

Title	Name	Compensation (A)		Pensions (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Total Compensation (A+B+C+D) as a % of Net Income (%)		Compensation from Nonconsolidated Affiliates
		From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation	From All Consolidated Entities	From the Corporation		From All Consolidated Entities		From the Corporation	From All Consolidated Entities	
								Cash	Stock	Cash	Stock			
President	Chao-Wen Chen	5,426	5,426	412	412	21,367 (Note)	21,367	216	-	216	-	0.67	0.67	960
Executive Vice President	Te-Jun Lo													

Note: The above-mentioned figures include depreciation expense for official business cars NT\$186 thousand, gasoline NT\$167 thousand, and other expenses NT\$35 thousand. Besides, compensation paid to the drivers is NT\$1,456 thousand.

Remuneration	Name of President and Executive Vice President	
	The Corporation	From All Consolidated Entities and Non-consolidated Affiliates (Note)
Under NT\$2,000,000	-	-
NT\$2,000,000 ~ NT\$ 5,000,000	-	-
NT\$5,000,000 ~ NT\$10,000,000	Te-Jun Lo	Te-Jun Lo
NT\$10,000,000~ NT\$15,000,000	-	-
NT\$15,000,000~ NT\$30,000,000	Chao-Wen Chen	Chao-Wen Chen
NT\$30,000,000~ NT\$50,000,000	-	-
NT\$50,000,000~ NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
Total	2 people	2 people

Note: The remuneration paid to President and Executive Vice Presidents from non-consolidated affiliates shall be included in this column.

Corporate Governance

4. The Ratio of the Remuneration Paid to Board of Directors, Supervisors, Presidents, and Executive Vice Presidents to Net Income in 2016 and 2017

(1) Paid from the Corporation

Paid to	The ration of Remuneration to Net Income (%)		Increase (Decrease) Rate (%)
	2017	2016	
Director	1.02	1.09	(0.07)
Supervisor	-	0.05	(0.05)
President and Executive Vice President	0.67	1.08	(0.41)

(2) Paid from the Corporation

Paid to	The ration of Remuneration to Net Income (%)		Increase (Decrease) Rate (%)
	2017	2016	
Director	1.04	1.10	(0.06)
Supervisor	-	0.05	(0.05)
President and Executive Vice President	0.67	1.09	(0.42)

(3) Analysis

1. The ratios of remuneration paid to Directors, Presidents, and Executive Vice Presidents to net income are less than that in 2016 because the net income increased in 2017. The ratios of remuneration paid to Supervisors to net income are less than that in 2016 because the Audit Committee was established on July 1, 2016 and substitute for Supervisors.
2. The connection between the remuneration's policy, standards and combinations, the process to sets up the remuneration, operation outcomes and future risks: There is Compensation Committee in the Corporation. Compensation paid to Directors, Supervisors, and General Managers are proposed by Compensation Committee and resolved by Board meetings.

(V) Employment Compensation Granted to Management Team

March 31, 2018
Unit: NT\$ thousands

	Title	Name	Stock	Cash	Total	Ratio of the Total to Net Income (%)
Managers	President	Chao-Wen Chen		710	710	0.02
	Executive Vice President	Te-Jun Lo				
	Vice President	Ching-Wu Chien				
	Vice President	Shing JuChen				
	Vice President	Hung-Ching Yang				
	Vice President	Min-Chang Lee				
	Special Assistant(Vice President)	Koju Huang				
	Vice President	Chiung-chih Tseng				
	Accounting and Finance Supervisor	Mei-Chu Tai				

III. Implementation of Corporate Governance

(I) Board of Directors Meeting Status

1. A total of 7 Board Meetings were held in 2017 and up to the end of March 2018. The following lists the directors' attendance to the Board Meetings:

Title	Name of Corporate Shareholder	Representative	Attendance		Attendance Rate in Person (%)	Notes
			in Person	By Proxy		
Chairperson	Yulon Motor Co., Ltd.	Kenneth K.T. Yen	4	3	57	
Vice Chairman	Tai-Yuen Textile Co.	Hsin-Tai Liu	7	0	100	
Director	Mitsubishi Motors Corporation	Katsuro Asaoka	7	0	100	
Director	Tai-Yuen Textile Co., Ltd.	Hsin-I Lin	6	1	86	
Director	Yulon Motor Co., Ltd.	Li-Lien Chen	6	1	86	
Director	Tai-Yuen Textile Co., Ltd.	Kuo-Rong Chen	7	0	100	
Director	Mitsubishi Corporation	Setsuya Yoshino	4	3	57	
Director	Le Wen Enterprise Co., Ltd.	Chao-Wen Chen	7	0	100	
Independent Director	-	Chen-Chi Hsiao	6	1	86	
Independent Director	-	Chi-Ching Chen	7	0	100	
Independent Director	-	Yun-Hua Yang	6	1	86	

Annotation:

1. Where one of the following circumstances apply for the operations of the Board of Director meetings, the date, session, topic discussed, opinions of every independent directors, and handling of the opinions of the independent directors by the CMC shall be explained:
 - (1) Items listed by Article 14-3 of the "Securities and Exchange Act": Following the establishment of the audit committee, Article 14-5 of the "Securities and Exchange Act" shall now apply, while Article 14-3 thereof shall not. For relevant resolutions, refer to the explanations provided in (III) Audit Committee Meeting Status.
 - (2) In addition to the aforementioned matters, any other resolutions from the Board of Directors where an independent director expressed a dissenting or qualified opinion that have been recorded or stated by written: None.
2. Recusals of Directors due to conflicts of interests: The directors of the Corporation are highly disciplined and recused themselves from the voting for proposal involved with their interest. There was no proposal with interest involved and therefore it was unnecessary for them to recuse. Regarding recusal for conflicts of interests relating to remuneration for independent directors, CMC has stipulated a clear internal operation procedure for handling recusals for conflicts of interests in 2017 and enforced the said procedure accordingly.
3. Measures taken to strengthen the functionality of the Board (e.g. establish Audit Committee, enhance information transparency): The Corporation had established the Audit Committee in 2016.

Corporate Governance

2. A total of 7 Board Meetings were held in 2017 and up to the end of March 2018. The following lists the independent directors' attendance to the Board Meetings:

Independent directors' attendance to the Board Meetings							
◎In person : ●By proxy : *Not present							
Year	2017						2018
Date	03.27	05.12	06.26	08.07	11.06	12.25	03.26
Chen-Chi Hsiao	◎	◎	◎	◎	●	◎	◎
Chi-Ching Chen	◎	◎	◎	◎	◎	◎	◎
Yun-Hua Yang	◎	◎	◎	●	◎	◎	◎

(II) Attendance of Supervisors for Board Meetings: None.

(III) Audit Committee Meeting Status

1. The Audit Committee consists of 3 members.
2. Tenure of office: the audit committee of CMC was established on July 1, 2016. The tenure of first session of committee is from July 1, 2016 to June 30, 2019. A total of 5 meetings were held in 2017 and up to the end of March 2018. Attendance is provided in the following:

Title	Representative	Attendance		Attendance Rate in Person (%)	Notes
		in Person	By Proxy		
Convener	Chen-Chi Hsiao	5	0	100	
Member	Chi-Ching Chen	5	0	100	
Member	Yun-Hua Yang	4	1	100	

Annotation:

1. Where one of the following circumstances apply for the operations of the audit committee, the date, session, and topic discussed of the Board Meeting, the resolution of the audit committee, and handling of the resolution of the audit committee by the CMC shall be described:
 - (1) Items prescribed by Article 14-5 of the "Securities and Exchange Act": For details, refer to Point (3).
 - (2) In addition to the aforementioned items, other proposals not passed by the audit committee but voted for by more than two-thirds of the entirety of the Board of Directors: None.
2. For the implementation and state of independent director's recusal for conflict of interest, the independent director's name, contents of the topic, reasons for the required recusal, and participation in the voting process: None.
3. State of communication between independent directors and internal audit supervisor and CPA (such as items, methods, and results of communications on the Company's finances and business status): For details, refer to Point (4) State of communication of CMC independent directors with internal audit supervisor and CPA.

3. Operational status of the audit committee:

Board of Directors Meetings	Proposals	Items prescribed by Article 14-5 of the <i>Securities and Exchange Act</i>	Proposals not passed by the audit committee but voted for by more than two-thirds of the entirety of the Board of Directors
5 th meeting of 19th term of BOD on March 27, 2017	1. “Key audit matters” of the 2016 financial statement of CMC.		
	2. 2016 financial statement of CMC.	V	
	3. Earnings distribution plan for 2016 of CMC.	V	
	4. Propose the “Internal Control System Statement” for 2016 of CMC.	V	
	5. Revise a number of clauses in the articles of organization of the audit committee of CMC.	V	
	6. Revise a number of articles of the “Procedure for the Acquisition and Disposal of Assets and Enforcement Rules for the Procedure for the Acquisition and Disposal of Assets” of CMC.	V	
	7. Evaluate the independence and suitability of certified public accountants (CPA) for 2017	V	
	Resulting resolutions of the audit committee (March 27, 2017): Resolution passed by every member of the audit committee.		
Handling of the opinions of the audit committee by the CMC: Approved by all Directors present in the meeting.			
7 th meeting of 19th term of BOD on June 26, 2017	1. Revisions to the Corporation’s “ Share Registration Unit Internal Control System” and “Internal Audit Implementation Rules for Share Registration Unit Internal Audit System”.	V	
	Resulting resolutions of the audit committee (June 26, 2017): All members of the audit committee passed the resolution.		
	Handling of the opinions of the audit committee by the CMC: Approved by all Directors present in the meeting.		
8 th meeting of 19th term of BOD on August 7, 2017	1. Financial Report of the second quarter, 2017	V	
	Resulting resolutions of the audit committee (August 7, 2017): Resolution passed by every member of the audit committee.		
	Handling of the opinions of the audit committee by the CMC: Approved by all Directors present in the meeting.		
10 th meeting of 19th term of BOD on December 25, 2017	1. Stipulation of the “2018 Audit Plan” of CMC	V	
	2. Changed the CPA of financial statements.	V	
	3. Revisions to “Organization of the Audit Committee” and “Internal Audit Implementation Rules for Governing Procedure for the Audit Committee” of CMC.	V	
	4. Revisions to the “Procedure for Board of Directors Meetings” of CMC.	V	
	5. NT\$5 billion dollars loan plan for Sino Diamond Motors Co., Ltd.	V	
	Resulting resolutions of the audit committee (December 25, 2017): Resolution passed by every member of the audit committee.		
Handling of the opinions of the audit committee by the CMC: Approved by all Directors present in the meeting.			

(Continued)

Corporate Governance

Board of Directors Meetings	Proposals	Items prescribed by Article 14-5 of the <i>Securities and Exchange Act</i>	Proposals not passed by the audit committee but voted for by more than two-thirds of the entirety of the Board of Directors	
11 th meeting of 19th term of BOD on March 26, 2018	1. 2017 financial statement of CMC.	V		
	2. Earnings distribution plan for 2017 of CMC.	V		
	3. Propose the “Internal Control System Statement” for 2017 of CMC.	V		
	4. Evaluate the independence and suitability of certified public accountants (CPA) for 2018.	V		
	Resulting resolutions of the audit committee (March 26, 2018): Resolution passed by every member of the audit committee.			
	Handling of the opinions of the audit committee by the CMC: Approved by all Directors present in the meeting.			

4. State of communication of CMC independent directors with internal audit supervisor and CPA:

A. Method of communications between independent directors and the internal audit supervisor and CPA

- a. Independent directors and the CPA hold regular meetings every year. The CPA shall communicate matters related to the auditing of the financial position as well as internal controls implemented of CMC as well as explanations related to decree updates and contents that exert material influences on losses or gains.
- b. The internal audit supervisor holds regular meetings with the independent directors to provide explanations on the state of implementing internal audits and of operations of internal controls in CMC.

B. Summary of the state of communications in 2017 and up to March 31, 2018

Corporate Governance

Date	Key communications between independent directors and CPA	Key communications between independent directors and internal audit supervisor
03.27.2017	<ul style="list-style-type: none"> ✓ Report about Investment income recognized under equity method in 2016. ✓ The CPA communicated with attending personnel on questions that have been raised. 	<ul style="list-style-type: none"> ✓ Report on key audit implementation matters from December 2016 to February 2017. ✓ The audit supervisor communicated with attending personnel on questions that have been raised.
06.26.2017	<ul style="list-style-type: none"> ✓ None 	<ul style="list-style-type: none"> ✓ Report on key audit implementation matters from March 2017 to May 2017. ✓ The audit supervisor communicated with attending personnel on questions that have been raised.
08.07.2017	<ul style="list-style-type: none"> ✓ The CPA presented a report on the auditing plan for the first half of 2017 and discussed key audit matters. ✓ The CPA communicated with attending personnel on questions that have been raised. 	<ul style="list-style-type: none"> ✓ Report on key audit implementation matters from June 2017 to July 2017. ✓ The audit supervisor communicated with attending personnel on questions that have been raised.
12.25.2017	<ul style="list-style-type: none"> ✓ The CPA communicated with attending personnel on questions that have been raised. 	<ul style="list-style-type: none"> ✓ Report on key audit implementation matters from August 2017 to October 2017. ✓ The audit supervisor communicated with attending personnel on questions that have been raised.
03.26.2018	<ul style="list-style-type: none"> ✓ Report about Investment income recognized under equity method and key audit matters in 2017. ✓ The CPA communicated with attending personnel on questions that have been raised. 	<ul style="list-style-type: none"> ✓ Report on key audit implementation matters from November 2017 to February 2018. ✓ The audit supervisor communicated with attending personnel on questions that have been raised.

(IV) Corporate Governance Execution Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”

Assessment Item	Status of Implementation			Non-compliance with the Corporate Governance BPP and reasons
	Yes	No.	Performance Summary	
1. Does the Corporation establish and disclose own corporate practice principles with reference to the “Corporate Governance BPP”?	✓		The Corporation has established the Code of Corporate Governance Practice and disclosed it on the Market Observation Post System and own corporate website.	The Corporation has established and disclosed own “Code of Corporate Governance Practice” with reference to the “Corporate Governance BPP” and has established own internal control system. Therefore, this Corporation is operated with reference to the spirit of the Corporate Governance BPP and has implemented relevant regulations.
2. Shareholding structure & shareholders’ rights: (1) Does the Corporation establish and implement the internal operation procedures to handle shareholders’ suggestions, concerns, disputes and litigation matters?	✓		(1) Apart from establishing the spokesperson system to handle the shareholder suggestions, concerns, disputes and litigation matters, shareholders can express their comments on the corporate website at http://www.china-motor.com.tw . The Corporation will assign relevant departments to appropriately respond to their comments. Under the Financial Department, we have established a share registration unit to handle and respond to relevant affairs.	(1) Comply with the “Corporate Governance BPP”.

Corporate Governance

Assessment Item	Status of Implementation			Non-compliance with the Corporate Governance BPP and reasons
	Yes	No.	Performance Summary	
(2) Does the Corporation maintain a list of major shareholders who controlling the Corporation and their beneficial owners?	✓		(2) The Corporation maintains a list of major shareholders who controlling the Corporation and their beneficial owners and reports their shares and stock mortgage/relief status by the Rules Governing Information Filing for TWSE-Listed Companies.	(2) Comply with the “Corporate Governance BPP”.
(3) Has the Corporation established and implemented a risk management system and “firewall” between the Corporation and its affiliates?	✓		(3) The Corporation has established the “Interested Party Trading Management Regulations” as the risk management system and firewall between the Corporation and affiliates.	(3) Comply with the “Corporate Governance BPP”.
(4) Has the Corporation established internal rules prohibiting insider trading securities on undisclosed information?	✓		(4) The Corporation has established the “Insider Trading Prevention SOP” to prohibit insiders from trading securities with undisclosed information.	(4) Comply with the “Corporate Governance BPP”.
3. Formation and responsibility of the board of directors:				
(1) Does the Corporation establish and implement diversified policies with reference to board formation?	✓		(1) The <i>Corporate Governance Best Practice Principles</i> of CMC stipulated the “Diversification Policy for the Membership of the Board of Directors” in December 2016 after forming the Board of Directors. The Policy was announced on the official website and was enforced accordingly. To ensure that the membership of the Board of Directors meets diversification requirements, refer to the section on “Diversification Policy for the Membership of the Board of Directors” for relevant measurement indicators and state of implementation.	(1) Comply with the “Corporate Governance BPP”.
(2) Besides establishing the Compensation Committee and Audit Committee by the law, does the Corporation voluntarily establish other functional committees?		✓	(2) The Corporation has established the Compensation Committee and the Audit Committee.	(2) Comply with the “Corporate Governance BPP”.
(3) Does the Corporation establish board performance evaluation regulations and methods to evaluate board performance every year?	✓		(3) The Corporation established the “Regulations Governing Evaluation of Performance of Board of Directors” in December 2015. The Corporation will conduct an internal evaluation on performance of the board of directors at least once per year. Methods of evaluation include: Internal evaluations for the operations of the Board of Directors, and self-evaluation by members of the Board. Scope of evaluation includes the entirety of the Board of Directors and individual members of the Board. The scope of evaluation extends to the entire board of directors and individual board member. The scope of evaluation on performance of the BOD covers: ① Level of participation in the Corporation’s operation; ② Upgrading of quality of decision made by the board of directors; ③ Composition and structure of the board of directors; ④ Election and continued education of directors; ⑤ Internal control. The scope of evaluation on the board members shall at least cover the following: ① Understanding about	(3) Comply with the “Corporate Governance BPP”.

Corporate Governance

Assessment Item	Status of Implementation		Non-compliance with the Corporate Governance BPP and reasons	
	Yes	No.		Performance Summary
(4) Does the Corporation assess the independency of its CPAs?	✓		<p>the Corporation and knowledge about job duties; ② Level of participation in the Corporation's operation; ③Expertise and continued education of directors; ④Internal control. The evaluation result 2017 showed that the entire operation of the BOD was fair, particularly with respect to ① the composition and structure of board of directors, ② Understanding about the Corporation and knowledge about job duties and ③Expertise and continued education of directors.</p> <p>(4) The following is the evaluations of the independence of the CPA:</p> <p>A. Rules from the <i>Corporate Governance Best Practice Principles</i> of CMC require the CMC to regularly evaluate the independence of CPA (once every year).</p> <p>B. The CMC has acquired the statement of independence from the accounting firm and evaluated CPA independence using an evaluation form using background information of the CPA.</p> <p>C. Evaluation standards are divided into 6 major categories, namely: relationships of interests between the CPA and the CMC, the presence of dual identities, whether the CPA has a history of defending the Company, familiarity with the personnel of the Company, whether the CPA is subject to duress from the Company, and the length of professional practice. Each of these categories is further subdivided into smaller items for evaluation.</p> <p>D. After evaluations carried out by the audit committee and Board of Directors in March 2018, the CPA commissioned by the CMC were found to have not violated the requirements for independence.</p>	(4) Comply with the "Corporate Governance BPP".
4. Has the TWSE/TPEX listed company set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (including but not limited to furnishing information required for business execution by directors and supervisors, handling matters related to board meetings and shareholders meetings, handling corporate registration and amendment registration, and producing minutes of board meetings and shareholders meetings)?	✓		<p>For corporate governance, we established a "Director of Corporate Governance" position under the General Manager Office, which is served by a division manager. Its designated dedicated units are the General Manager Office and the Finance & Accounting Division, are respectively responsible for implementing the following matters of corporate governance:</p> <ol style="list-style-type: none"> 1. Company registration and changing the said registration, including changes to the membership of directors and supervisors or changes to business activities. 2. Matters related to the shareholders' meeting, including Board Meetings for approving proposals from the shareholders' meeting, notifications for the shareholders' meeting, convening of the meetings, and generating and uploading of the meeting minutes. 3. Matters related to the Board Meetings, including internal approval and resolutions for proposals of the Board Meetings, issuing notifications for the Board Meetings, convening of meetings, generating of the meeting minutes, making relevant disclosures, and submitting printed copies of the meeting minutes to the competent authorities. 4. Regularly provide directors with information necessary for their duties, including financial statements of each 	Comply with the "Corporate Governance BPP".

Corporate Governance

Assessment Item	Status of Implementation			Non-compliance with the Corporate Governance BPP and reasons
	Yes	No.	Performance Summary	
			<p>quarter, information on the state of corporate business, information on the resolutions of the audit committee, and information on the resolutions of the remuneration committee.</p> <p>5. The implementation of internal corporate governance by the CMC includes regular corporate governance training courses for the directors and relevant supervisors, stipulation of goals related to the implementation of corporate governance, and regular monitoring of the said goals.</p> <p>6. Actively promote rankings in corporate governance with the aim in achieving top 5% in terms of performance of TWSE/TPEX listed companies every year.</p>	
5. Does the Corporation establish mechanisms for communicating with stakeholders and a stakeholder site on the corporate website to appropriately respond to material CSR topics they concern about?	✓		The Corporation has established the stakeholder site provided detailed contact information on the corporate website for stakeholders (customers, the public, and suppliers) to express their comments, so that the Corporation can make appropriate response.	Comply with the “Corporate Governance BPP”.
6. Does the Corporation assign professional share registers to handle shareholder meeting affairs?		✓	The Corporation has an own share register department.	Comply with the “Corporate Governance BPP”.
7. Information disclosure				
(1) Does the Corporation establish a website to disclose own operation, financial and corporate governance information?	✓		(1) The Corporation discloses relevant operation, financial and corporate governance information over the corporate website.	(1) Comply with the “Corporate Governance BPP”.
(2) Does the Corporation disclose such information with other methods (e.g., English website, assigning staff to gather and disclose relevant information, implementing the spokesperson system, and posting the conference call on the corporate website)?	✓		(2) The Corporation has established an English website, assigned special staff to gather and disclose corporate information, implemented the spokesperson system, and posted conference call on the corporate website.	(2) Comply with the “Corporate Governance BPP”.
8. Does the Corporation disclose other information for investors to better understand its corporate governance practices (including but not limited to employee rights and benefits, employee care, investor relations, supplier relations, stakeholder rights and benefits, training for directors and supervisors, implementation of risk management policies and risk assessment standards, implementation of customer relations policies, and Directors	✓		See Note.	Comply with the “Corporate Governance BPP”.

Corporate Governance

Assessment Item	Status of Implementation		Non-compliance with the Corporate Governance BPP and reasons
	Yes	No.	
and Officers Liability Insurance)?			
<p>9. Improvements made in the most recent year in response to the results of corporate governance evaluation conducted by the Corporate Governance Center of the Taiwan Stock Exchange Corporation, and prioritized matters and measures to be improved upon for matters that have not been improved: According to the corporate governance accreditation result published in April, 2017, our 2016 corporate governance accreditation result was the top 5%. Regarding the indicators below the scoring requirements, 3.14 and 5.5, we completed them in 2017 and their descriptions are as following: (1) Our incumbent directors (including independent directors) all conform to the regulated training hours. (2) We have signed the collective agreement with the Union according to the Collective Agreement Act.</p>			
<p>Note: Material information for better understanding of corporate governance:</p>			
<p>(1) Employee rights and benefits: The Corporation protects the rights and benefits of employees with reference to the Labor Standards Act and has specified employee rights and benefits in the Employee Handbook. The Corporation also publishes information regarding employee rights and benefits on the intranet and bulletin board.</p>			
<p>(2) Employee care: The Corporation provides employees with comprehensive care, including the employee canteen, employee dormitory, employee gymnasium, swimming pool, employee library, and infirmary. The Corporation also organizes employee fair (Family Day) and subsidizes employee tours from time to time and arranges health examinations for employees regularly.</p>			
<p>(3) Investor relations: The Corporation publishes on the corporate website information regarding the future development and financial condition of the Corporation and holds conference call at least 2 times a year. The Corporation also assigns special staff to answer questions of investors and explains to them the Corporation's future development through teleconferences or presentations from time to time.</p>			
<p>(4) Supplier relations: The Corporation has a procurement department to handle product supply of suppliers and handle the quality improvement of suppliers from time to time. The Corporation also holds the contractor conference every year to explain to suppliers the annual plan and future development of the Corporation.</p>			
<p>(5) Stakeholder rights and benefits: The Corporation maintains the rights and benefits of stakeholders with reference to the law and assigns relevant units to respond to stakeholders.</p>			
<p>(6) Training for directors (including independent directors): The Corporation regularly provides training information for directors (including independent directors) and encourages them to receive training. In addition, the Corporation arranges training on new laws and accounting systems for directors (including independent directors). Relevant training information is disclosed over the MOPS.</p>			
<p>(7) Implementation of risk management policy and risk assessment standards: The Corporation has established the Audit Division to audit potential risks on a routine basis and report results to the internal business meeting at planned intervals.</p>			
<p>(8) Implementation of customer service policy (respect for consumer demand): The Corporation has established a helpline (toll-free 0800) and suggestion box on the corporate website for consumers to express their demand and comments. The Corporation also requests dealers to make timely response to customers.</p>			
<p>(9) Directors (including independent directors) and Officers Liability Insurance: In order to strengthen corporate governance of the Corporation, CMC buy D&O Liability Insurance every year. The information is published on the MOPS.</p>			

Corporate Governance

●Diversification Policy for the Membership of the Board of Directors

Policy for the diversification of Board of Directors membership of CMC has been passed in the Board Meeting of December 19, 2016. Major contents are provided in the following:

1. When selecting and evaluating candidates for directors and independent directors, the CMC shall include a wide range of considerations for membership diversity such as academic background, work experiences, gender, independence, skills and experience, and nationality to determine whether or not the candidate should be made a member of the Board to bring about the maximum benefits for CMC.
2. The following lists indicators of diversity requirements to ensure that the Board members of CMC are able to meet diversity requirements:
 - (1) Independence: The ratio of the directors and independent directors in the Board of Directors shall be balanced to ensure that the Board is highly independent. The Board of the CMC shall have at least three independent directors.
 - (2) Gender: CMC actively promotes a work place free from gender discrimination. In the spirit of this consideration, there shall be at least one female director on the Board.
 - (3) Nationality: Given the diversity of the business portfolio of CMC, having one (or more) director of another nationality on the Board will provide better information and understanding of business operations in other countries. Hence, the Board of Directors of CMC shall have at least one director from another country.
 - (4) Skills and experience: Directors with a background in finance, academic subjects, and management will help provide professional recommendations for corporate management. The Board of CMC shall include at least a director or independent director with a professional background (such as accounting).

3. State of implementation:

Diversity indicators Name of director	Independence	Gender	Nationality	Skills and experience
Kenneth K. T. Yen	Non-independent	Male	R. O. C.	Administration and management
Hsin-Tai Liu	Non-independent	Male	R. O. C.	Administration and management
Katsuro Asaoka	Non-independent	Male	Japan	International corporate management
Hsin-I Lin	Non-independent	Male	R. O. C.	Administration and management
Li-Lien Chen	Non-independent	Female	R. O. C.	Administration and management
Kuo-Rong Chen	Non-independent	Male	R. O. C.	Administration and management
Setsuya Yoshino	Non-independent	Male	Japan	International corporate management
Chao-Wen Chen	Non-independent	Male	R. O. C.	Administration and management
Chen-Chi Hsiao	Independent	Male	R. O. C.	Accounting
Chi-Ching Chen	Independent	Male	R. O. C.	Administration and management
Yun-Hua Yang	Independent	Male	R. O. C.	Law and legal affairs

Corporate Governance

(V) Composition, Responsibilities and Operations of Compensation Committee:

1. Information of compensation committee members

Identity (Note 1)	Criteria	Meet the following professional qualification requirements, together with at least five years work experience			Criteria (Note 2)								Number of other Taiwanese public companies concurrently serving as a compensation committee member in Taiwan	NOTE
		An instructor or higher position in a department of commerce, law, finance, accounting or other academic department related to the business needs of the company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the area of commerce, law, finance or accounting or otherwise necessary for the business of the company	1	2	3	4	5	6	7	8		
Independent Director	Chen-Chi Hsiao	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Chi-Ching Chen	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Yun-Hua Yang	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	2	

Note 1: Serve as a director, independent director or otherwise

Note 2: Status of independence compliance

- (1) Not an employee of the company or its affiliates
- (2) Not a director or supervisor of an affiliated business of the Company. However, this restriction does not apply in cases where the person is an independent director of the Company, its parent or subsidiary established in pursuant to this law or local laws.
- (3) Not a natural-person shareholder who holds the share, altogether with those shares held by the person's spouse, minor children or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or rank as one of its top 10 shareholders.
- (4) Not a spouse, relative with in second degree of kinship or lineral relative within the third degree of kinship, or any of the above person in the preceding three subparagraphs
- (5) Not a director, supervisor or employee of a corporate/institutional shareholder that directly holds 5% or more of the total number of issued shares of the company or rank as one of its top 5 shareholders
- (6) Not a director, supervisor, officer or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, officer of a sole proprietorship, company or institution that, provides commercial, legal, accounting services or consultation to the company or any affiliate of the company, or a spouse thereof.
- (8) Not been a person of any conditions defined in article 30 of the Company Law

Corporate Governance

2. Compensation committee meeting status

(1) The Corporation's compensation committee consists of 3 members.

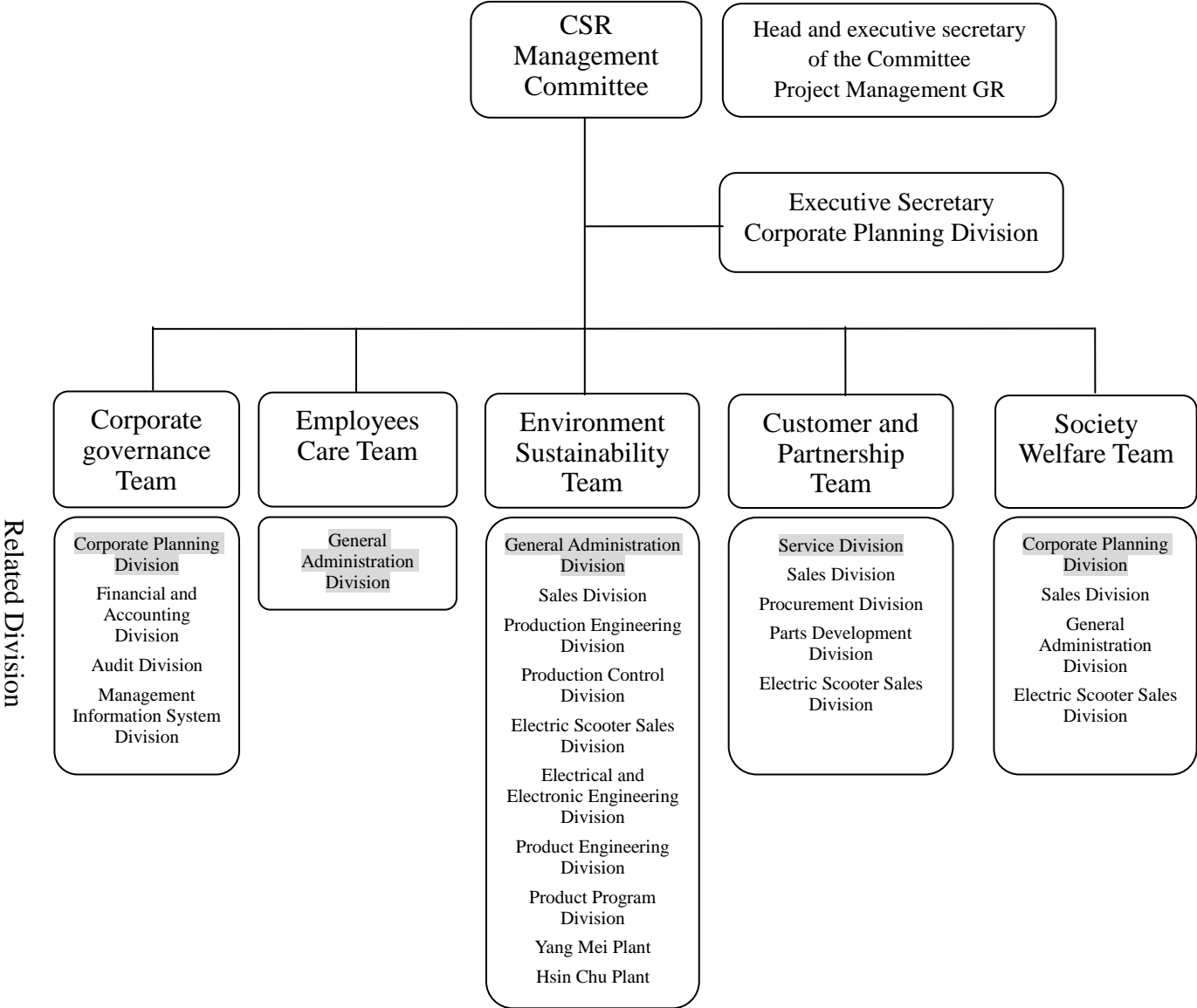
(2) Tenure of office: the tenure of third session of committee is from July 1, 2016 to June 30, 2019. Attendance in 2017 up to the end of March 2018 is provided in the following:

Title	Name	Meeting Times (A)	Attendance		Attendance rate in person (%) (B/A)	Notes
			in person (B)	By proxy		
Convener	Chen-Chi Hsiao	3	3	0	100%	
Member	Chi-Ching Chen		3	0	100%	
Member	Yun-Hua Yang		3	0	100%	
Annotations: 1. There was no recommendation of the compensation committee which was not adopted or was modified by the Board. 2. There were no written or otherwise recorded resolutions on which a member of the compensation committee had a dissenting opinion or qualified opinion.						

Corporate Governance

(VI) Social Responsibility:

We approved the establishment of the “Corporate Social Responsibility Management Committee (hereinafter referred to as CSR Management Committee)” in 2014. The Project Management GR Director serves as the head and executive secretary of the Committee, and the Committee has teams of “Corporate governance”, “Employees Care”, “Environment Sustainability”, “Customer and Partnership” and “Society Welfare”. The Committee is responsible for drawing up and reviewing CSR strategies, system and management policies. It is also responsible for the continue promotion of CSR work and the annual editing of the CSR report, and reports the implementation result to the board of directors biannually.



Note: Serves as the main responsible division.

Corporate Governance

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons	
	Yes	No		Performance Summary
<p>1. Corporate governance promotion</p> <p>(1) Does the Corporation establish a CSR policy or system and review the effectiveness of implementation?</p>	✓		<p>(1) CMC stipulated its Corporate Social Responsibility Best Practice Principles in 2014 to implement corporate governance, develop sustainable environments, sustain community services, enhance corporate social responsibility (CSR) information disclosure, and fulfill other principles and practices. CMC also established a CSR management committee to be in charge of implementing various plans for CSR. Practices include CSR training, establish and audit the Environmental Management System (green product/green materials/ energy management system), preparing CSR report, enhancing CSR awareness and providing counseling to dealers and partners, establishing channels of appeal for various stakeholders, participate in social activities and held on charitable activities. The state of implementing various practices and guidelines is also regularly reported in Board Meetings to evaluate the results of implementation.</p>	(1) Comply with the CSR BPP.
<p>(2) Does the Corporation arrange CSR training on a regular basis?</p>	✓		<p>(2) The Administration Department arranges corporate ethics-related training regularly, including pre-service training and labor law related courses for new employees.</p>	(2) Comply with the CSR BPP.
<p>(3) Does the Corporation establish a dedicated (concurrent) unit to promote CSR with authorization from top management and to report the effectiveness of implementation to the board?</p>	✓		<p>(3) 1. In 2014, the Corporation established the CSR Management Committee chaired by the VP of Planning and Administration. Under the committee, there are the “corporate governance”, “employee care”, “sustainable environment”, “customer and partner relations”, and “Society Welfare” teams. The Corporate Planning Division, General Administration Division, and Service Division lead respective teams. Other members of these teams include the Finance and Accounting Division, Management Information System Division, Audit Division, Sales Division, Electric Scooter Sales Division, Product Program Division, Electrical & Electronic Engineering Division, Product Engineering Division, Production Engineering Division, Production Control Division, Yangmei Plant, Hsinchu Plant, Procurement Division and Parts Development Division. The CSR Management Committee is responsible for promoting CSR, formulateing policy and system, and executiveing plan, and reporting the effectiveness of implementation to the board at planned intervals biannually.</p>	(3) Comply with the CSR BPP.

(Continued)

Corporate Governance

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	
(4) Does the Corporation establish a fair compensation policy combing with the employee performance evaluation system and CSR policy and an effective and well-defined reward and punishment system?	✓		<p>2. Concrete promotion plans and implementation results: We set up 3 annual goals every year, and the main promotion plan of 2017 was “Promoting to the Subcontractors and Dealers”. The completed promotions include:</p> <p>① Corporate Governance Team: A. In the top 5% of the 3rd Corporate Governance Accreditation among listed companies. B. Received the first place for automotive industries in the Excellence in Corporate Social Responsibility award, and the 8th place for the large enterprises in the Excellence in Corporate Social Responsibility award in 2017.</p> <p>② Employees Care Team: A. The collective agreement was signed and announced on the internal and external websites. B. Adjust the subsidy for giving birth, and add a new subsidy of NT\$2,000 for pregnancy.</p> <p>③ Environment Sustainability Team: A. The Industrial Development Bureau approved our conformance to the “demonstration of the industrial low-carbon technology application”. B. Import of the EMS energy management system.</p> <p>④ Costumer and Partnership Team: A. Our energy conservation expert helped 4 investees improve their energy conservation. B. Articles of anti-corruption and fulfillment of CSR are included in the basic contract with the subcontractors. We completed the signing with 120 subcontractors. C. We assisted 2 dealers in the operation of energy conservation and carbon reduction. D. The performance of SSI J.D. POWER received the first place among the non-luxurious brands. E. We subsidized the devices, components and consultants of the National Skill Competition with the dealers.</p> <p>⑤ Social Welfare Team: A. Non-profit maintenance: Building designated car for remote villages tour to the tribes in Miaoli and Hualien. B. Organizing the “Dream Fulfilling Project” related to the aboriginals to give care to the tribes for 4 years. C. “Guarding Happiness Project”: Subsidizing cars for social welfare organizations to use.</p> <p>(4) The Corporation has strictly followed the labor-and-human-rights regulations established by the government, and has established an appropriate compensation system and relevant disciplinary items to reward or punish employees with reference to their performance and conduct.</p>

(Continued)

Corporate Governance

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons	
	Yes	No		Performance Summary
<p>2. Development of a sustainable environment:</p> <p>(1) Does the Corporation make efforts to enhance resource efficiency and use recycled materials with lower environmental impact?</p> <p>(2) Does the Corporation establish an appropriate environmental management system (EMS) according to the characteristics of its industry?</p> <p>(3) Has the Corporation noticed the effect of climate change on its business activities and does it implement GHG inventory and establish an energy conservation and GHG reduction strategy?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(1) In order to boost the efficiency for the use of resources, we established the CMC energy management system and convene meetings regularly for the review. We promoted energy management with a system and received the ISO50001 certificate.</p> <p>(2) The Corporation has established an EMS with reference to relevant environmental regulations and other requirements, effective resource utilization, pollution prevention and continual improvement, and organizational operation. The Corporation has also passed ISO14001 EMS certification.</p> <p>(3) In 2009 the Corporation began voluntary GHG disclosure at the Taiwan National Greenhouse Gas (GHG) Registry every year. The Corporation establishes the Energy Conservation Team with members from each department to promote energy audit, establishes and implements energy conservation targets and programs, analyzes energy consumption and efficiency, holds review meetings at planned intervals, and proposes improvement plans, so as to reduce GHG emissions.</p> <p>In addition, by implementing the ISO14001 EMS, the Corporation includes energy conservation measures in the annual improvement program for each plant to implement. At the monthly energy conservation review meeting, each unit proposes energy conservation measures and practices.</p>	<p>(1) Comply with the CSR BPP.</p> <p>(2) Comply with the CSR BPP.</p> <p>(3) Comply with the CSR BPP.</p>
<p>3. Implementation of philanthropy</p> <p>(1) Does the Corporation establish relevant management policies and procedures with reference to relevant international regulations and international human rights treaties?</p> <p>(2) Does the Corporation establish mechanisms and channels for and properly handle employee grievances?</p>	<p>✓</p> <p>✓</p>		<p>(1) The Corporation observes relevant labor laws and regulations, and respects internationally recognized basic labor and human rights. After regularly gathering reviews labor laws and regulations, the General Administration Division reviews relevant the compliance of relevant SOPs and regulations and amend them where necessary. The Corporation also ensures no discrimination in employment policies.</p> <p>(2) The Corporation sets up a suggestion box to gather opinion and comments from employees. The Corporation also establishing channels of appeal for various stakeholders for different stakeholders and will be handled by assigned staff immediately.</p>	<p>(1) Comply with the CSR BPP.</p> <p>(2) Comply with the CSR BPP.</p>

(Continued)

Corporate Governance

Assessment Item	Implementation		Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons	
	Yes	No		Performance Summary
(3) Does the Corporation provide employees with a safe and healthy work environment and regularly arrange safety and health training/education for employees?	✓		(3) The Corporation has established the Safety and Health Office and a Health Center (infirmary) to audit occupational safety in the work environment and arrange periodic health examination. The Corporation also hires resident physicians to ensure employee health.	(3) Comply with the CSR BPP.
(4) Does the Corporation establish mechanisms for periodic employee communication and reasonably notice employees of significant operational changes that could substantially affect them?	✓		(4) The Corporation holds Labor conference to explain to employees the significant change affecting future corporate development in the future and related operational changes.	(4) Comply with the CSR BPP.
(5) Does the Corporation establish effective training plans for employees to develop employability?	✓		(5) The Corporation implements training/ education programs regularly, including pre-service training and in-service training. The Corporation also assigns suitable employees to attend knowledge and skill training courses to develop competencies required by work.	(5) Comply with the CSR BPP.
(6) Does the Corporation establish policies and procedures to protect consumer rights and benefits in R&D, procurement, production, operation, and service processes?	✓		(6) The Corporation prioritizes maintenance of consumer rights and benefits and establishes the following standards to handle product liability and accidents: “Toll-free Helpline Answering Service Quality Management SOP”, “Toll-free Helpline and Consumer Complaint Handling SOP”, and “Toll-free Helpline Complaint Closure Aftercare SOP”. In addition, all product assurance standards and SOPs are reviewed and revised periodically to ensure a flawless product assurance system.	(6) Comply with the CSR BPP.
(7) Does the Corporation follow relevant regulations and international standards to market and label products and services?	✓		(7) In advertising products, apart from complying with the verity and good faith principle of automobiles, all appeals and methods comply with relevant legal requirements. In legal compliance, product related data is indicated in respective locations to clearly inform consumers. Details are also given in the owner’s manual to ensure consumers fully and easily understand the specifications, performance, operation, and precautions of product.	(7) Comply with the CSR BPP.
(8) Does the Corporation assess if suppliers have records regarding causing impacts on the environment and society?	✓		(8) Apart from setting green procurement as an important corporate policy, the Corporation has aggressively encouraged suppliers to pass ISO14001 certification and assesses suppliers prior to any transactions.	(8) Comply with the CSR BPP.

(Continued)

Corporate Governance

Assessment Item	Implementation			Non-compliance with the Corporate Social Responsibility BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Performance Summary	
(9) When signing contracts with major suppliers, does the Corporation include the following terms in the contract: when suppliers violate the Corporation's CSR policy and have significant impact on the environment and society, the Corporation may terminate or rescind the contract at any time?	✓		(9) To optimize supplier management, the Corporation signs the "Basic Contract" with suppliers to specify the rights and obligations of both parties. The "Basic Contract" specifies that the supplier should comply with the Corporation's environmental policy, laws and regulations. The Corporation can terminate the contract and ask for compensation when the supplier violates the "Basic Contract". In addition, the Corporation has established and implemented the Supplier Management Regulations to request and supervise suppliers to continually raise quality, delivery time, cost, R&D, and safety standards. Through routine managements, guidance, and reward, we push suppliers to make continual improvement, so as to pursue sustainable operation.	(9) Comply with the CSR BPP.
4. Reinforcement of disclosure of CSR information. (1) Does the Corporation disclose relevant and reliable CSR information on the corporate website and MOPS?	✓		(1) The Corporation has set up a corporate website and discloses regularly information related to consumers and investors on the corporate website and the MOPS. In addition, the Corporation publishes CSR-related information in the annual report.	(1) Comply with the CSR BPP.
5. If the Corporation has established own code of CSR practice with reference to the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies," specify its operation and non-compliance with the best practice principles: In 2014 the Corporation established own Code of CSR Practice with reference to the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies." At present, the Corporation has completed our own internal control system. Therefore, the Corporation has operated and implemented relevant regulations with reference to the spirit of the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies."				
6. Other material information enabling a better understanding of CSR implementation: The Corporation published and disclosed the CSR Report on the corporate website and the MOPS.				
7. If the organizational CSR report has passed the verification standards of relevant certification authorities, please specify: None.				

(VII) Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission:

Assessment Item	Implementation			Non-compliance with Ethical Corporate Management BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Performance Summary	
1. Policies and plans for fair and ethical business operations (1) Does the Corporation specify its policies and practices to maintain fair and ethical business operations in relevant regulations and external documents? Do the board and managers actively implement the commitments made in relevant policies?	✓		(1) The Corporation sets "harmony, innovation, excellence" as management philosophy and "integrity, care, and responsibility" as the employee's code of conduct, apart from ensuring "philosophy" is implemented in management, it is specified in the employee handbook	(1) Comply with the Ethical Corporate Management BPP.

Corporate Governance

Assessment Item	Implementation			Non-compliance with Ethical Corporate Management BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Performance Summary	
<p>(2) Does the Corporation draw up and practice programs to prevent unethical conduct and set out in each program and implement SOPs, conduct guidelines, penalties for violation, and a grievance system?</p> <p>(3) Does the Corporation take precautionary action to prevent business activities specified in paragraph 2 of Article 7 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” and other business activities within its scope of business with higher behavioral risk?</p>	<p>✓</p> <p>✓</p>		<p>The Corporation established “Code of Business Ethics” to enhance fair and ethical business.</p> <p>(2) “Code of Business Ethics” stipulates the improper ethical behavior and rules to prevent improper behavior. In the organizational “Work Rules”, the Corporation specifies that no employee shall accept bribes or other improper benefits for an official act and punishes employees based on the severity of indecent act.</p> <p>(3) “Code of Business Ethics” sets up rules and prevention about risky business operation like improper profit, political donation In the “Service Ethics” and “Punishment, Reward, Promotion, Transfer, and Performance Evaluation” sections of the “Work Rules”, the Corporation specifies what employee behaviors are acceptable and how to respond to the indecent act of others. The “Work Rules” are explained to employees upon hiring.</p>	<p>(2) Comply with the Ethical Corporate Management BPP.</p> <p>(3) Comply with the Ethical Corporate Management BPP.</p>
<p>2. Implementation of fair and ethical business operations</p> <p>(1) Does the Corporation assess if trading counterparts involved in any unfair and unethical business operations and include the fair and ethical business operations clause in the transaction agreement signed with them?</p> <p>(2) Has the Corporation established a dedicated (concurrent) unit directly under the board to promote fair and ethical business operations and report the effectiveness of implementation directly to the board?</p>	<p>✓</p> <p>✓</p>		<p>(1) Aside from setting “integrity, care, and responsibility” as the employee’s code of conduct and specifying relevant service ethics in the “Work Rules”, the Corporation values the integrity of trading counterparties and thus specifies ethical clauses in standard contract with vendor.</p> <p>(2) The following describes the state of implementation in CMC:</p> <p>A. CMC has established an Ethical Corporate Management and Compliance Management Committee. The management department is responsible for serving as the executive secretary, with GR. Ching-wu Chien of planning management serving as the chairperson. The job functions and scope of responsibilities of each department are referenced to ensure the proper implementation of best practice principles of ethical corporate management. The general manager’s office shall report the state of the implementation to the Board Meeting on an annual basis. The state of implementation in 2017 has been reported to the Board of Directors on November 6, 2017.</p> <p>B. To prevent conflicts of interest and provide suitable channels of appeals, CMC has established an Ethical Corporate Management Best Practice Principles of</p>	<p>(1) Comply with the Ethical Corporate Management BPP.</p> <p>(2) Comply with the Ethical Corporate Management BPP.</p>

(Continued)

Corporate Governance

Assessment Item	Implementation			Non-compliance with Ethical Corporate Management BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Performance Summary	
			<p>CMC in 2015.</p> <p>C. The following describes ethical corporate management measures implemented in 2017:</p> <p>a. Awareness of ethical corporate management is promoted amongst newly appointed directors and managerial officers. The said personnel are also required to sign declarations for ethical corporate management.</p> <p>b. Promote ethical corporate management with new employees.</p> <p>c. "Procedures for Ethical Management and Guidelines for Conduct" ISO amendment promotion.</p>	
(3) Does the Corporation establish and implement policies to prevent conflicts of interest and provide appropriate channels for reporting such conflicts?	✓		(3) In the "Work Rules" the Corporation specifies that employees may be dismissed and face relevant legal action if they engage in work of a similar nature externally with conflicts of interest with the Corporation that causes serious damage to the Corporation without prior permission from the Corporation. Also, the annual work target of employees is set with reference to the organizational or departmental annual work policies, and the goal of employees and the organization should be consistent and conflicts of interest should be prevented through thorough communication. The Corporation has established "Procedures for Ethical Management and Guidelines for Conduct" stipulates the improper ethical behavior and rules to prevent improper behavior and "Corporate Ethical Management and Compliance Committee" to process and communicate relative manners.	(3) Comply with the Ethical Corporate Management BPP.
(4) Has the Corporation established effective accounting and internal control systems to implement fair and ethical business operations? Does the Corporation have these system audited regularly by the internal audit unit or a CPA?	✓		(4) The Audit Division audits internal systems and external activities regularly and report the results to the board.	(4) Comply with the Ethical Corporate Management BPP.
(5) Does the Corporation arrange regular internal/external training/ education for fair and ethical business operations?	✓		(5) Apart from arranging training on fair and ethical operations for new employees, the Corporation has established the "Work Rules" and "NC-0403 Reward and Punishment Regulations" and posted them on the intranet for the reference of all employees to ensure employees understand the importance of fair and ethical operations and relevant reward and punishment regulations. In addition, the Corporation reviews relevant regulations at planned intervals and publishes them after each time of revision for employees to understand.	(5) Comply with the Ethical Corporate Management BPP.

(Continued)

Corporate Governance

Assessment Item	Implementation			Non-compliance with Ethical Corporate Management BPP for TWSE/GTSM Listed Companies and Reasons
	Yes	No	Performance Summary	
<p>3. Operation of the whistleblower system</p> <p>(1) Does the Corporation establish a practical whistleblower and reward system and channels to facilitate reporting of unfair and unethical business operations and assign appropriate personnel to handle a reported case?</p> <p>(2) Does the Corporation establish a SOP and a non-disclosure mechanism of relevant investigations?</p> <p>(3) Does the Corporation establish and implement an informer protection policy to ensure no informer will receive indecent treatment?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(1) ~ (3) Employees can directly report to the General Administration Division or to the supervisors through the “Employee Grievance Box” any violation of fair and ethical operations and no part of investigations will be disclosed. In addition, employees can make anonymous reports and the case responsible unit will not disclose any information of informers (whistleblowers) to ensure absolute protection.</p> <p>The report hotline and SOP are published on the Corporation website and reports will be handling by stakeholder identity under SOP.</p>	<p>(1) ~ (3) Comply with the Ethical Corporate Management BPP.</p>
<p>4. Reinforcement of information disclosure</p> <p>(1) Does the Corporation disclose the content and effectiveness of implementation of the Code of Business Ethics on the corporate website and MOPS?</p>	<p>✓</p>		<p>(1) The Corporation discloses the content of own Code of Business Ethics on the corporate website and MOPS and the status of operation on the corporate website at planned intervals, including the status of fair and ethical operations where necessary.</p>	<p>(1) Comply with the Ethical Corporate Management BPP.</p>
<p>5. If The Corporation has established own code of business ethics with reference to the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies,” specify its operation and non-compliance with the best practice principles.</p> <p>In 2014, the Corporation established own Code of Business Ethics with reference to the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies.” At present, the Corporation also has a completely internal control system. Therefore, the Corporation has operated and implemented relevant regulations with reference to the spirit of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies.”</p>				
<p>6. Other material information enabling a better understanding of fair and ethical business operations (such as review and revise the code of business ethics): To respond to the replacement of supervisors with an audit committee, the CMC has revised its Ethical Corporate Management Best Practice Principles in December 2015 (entered into force in July 2016). An Ethical Corporate Management and Compliance Management Committee meeting was convened in October 2017 to adjust committee organization and discuss future implementation.</p>				

(VIII) Corporate Governance Guidelines and Regulations:

Please refer the “Corporate Governance” of Market Observation Post System and the corporate website (<http://www.china-motor.com.tw>).

(IX) Other Important Information Regarding Corporate Governance:

Please refer the “Corporate Governance” of Market Observation Post System and the corporate website (<http://www.china-motor.com.tw>).

Corporate Governance

(X) Internal Control System Execution Status

1. Statement of Internal Control System

China Motor Corporation
Statement of Internal Control System

Date: March 26, 2018

Based on the findings of a self-assessment, the Corporation states the following with regard to its internal control system during the year of 2017:

1. The Corporation's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operation (including profitability, performance, and safeguarding of assets), reliability of our financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanism, and the Corporation takes immediate actions in response to any identified deficiencies.
3. The Corporation evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further covers certain items. Please refer to "Regulations" for preceding items.
4. The Corporation has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, the Corporation believes that, on December 31, 2017, we have maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations.
6. This statement will be an integral part of the Corporation's Annual Report for the year 2017 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Article 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement has been passed by the Board of Directors in their meeting held on March 26, 2018, with none of 11 attending directors expressing dissenting opinions, and the remainder all affirming the content of this statement.

China Motor Corporation

Chairperson: Kenneth K.T. YEN

President : Chao-Wen Chen



Corporate Governance

2. The independent auditor's report shall be disclosed if the the auditor is designated to review internal control system: None

(XI) Punishment and Improvement Status of Violation Internal Control System during the 2017 Calendar Year and up to March 31, 2018: None

(XII) Major Resolutions at Shareholders Meetings and Board of Directors Meetings during the 2017 Calendar Year and up to March 31, 2018

1. Major Resolutions at Board of Directors Meetings

Date of meeting	Important resolution	Implementation
03.27.2017	<ol style="list-style-type: none"> 1. Key audit matters of 2016 Annual Report. 2. The Corporation's 2016 Annual Report. 3. The Corporation's 2016 Earning Distribution. 4. Passed the date and location of the Corporation's general shareholders' meeting 2017. 5. Passed the allocation of remuneration and compensation to directors/supervisors and employees 2016. 6. Passed the issue of the Corporation's "Statement of Internal Control System" for 2016. 7. Revise a number of articles on the articles of organization of the audit committee of CMC. 8. Appointment of managerial officers of CMC as directors and supervisors of an investee, and lifting non-compete clause prohibitions. 9. Passed the evaluation on CPA's independence and competency 2017. 10. Revise a number of articles of the "Procedure for the Acquisition and Disposal of Assets" and "Enforcement Rules for the Procedure for the Acquisition and Disposal of Assets" of CMC. 11. Passed the Corporation's rearrangement of managers and higher-level officers. 	Already published on the MOPS and implemented with reference to relevant regulations. Motions 2, 3 and 10 were submitted to the general shareholders' meeting 2017 for recognition and resolution.
05.12.2017	None.	None.
06.26.2017	Passed the revision to the Corporation's "Share Registration Unit Internal Control System" and "Internal Audit Implementation Rules for Share Registration Unit Internal Audit System".	Already implemented per the resolution.
08.07.2017	None.	None.
11.06.2017	Passed the Corporation's rearrangement of general managers and higher-level officers.	Already implemented per the resolution.

Corporate Governance

Date of meeting	Important resolution	Implementation
12.25.2017	<ol style="list-style-type: none"> 1. Passed the Corporation's annual objectives 2018. 2. Passed the Corporation's annual audit plan 2018. 3. Changed the CPA of financial statements. 4. Revisions to "Organization of the Audit Committee" and "Internal Audit Implementation Rules for Governing Procedure for the Audit Committee" of CMC. 5. Revisions to the "Procedure for Board of Directors Meetings" of CMC. 6. Passed the NT\$5 billion dollars loan plan for Sino Diamond Motors Co., Ltd. 7. Passed the raise of managers 2017. 8. Passed the motion for reorganization of the Corporation's departments. 9. Passed the Corporation's rearrangement of general managers and higher-level officers. 10. Appointment of managerial officers of CMC as directors and supervisors of an investee. 	Already published on the MOPS and implemented with reference to relevant regulations.
03.26.2018	<ol style="list-style-type: none"> 1. The Corporation's 2017 Annual Report. 2. The Corporation's 2017 Earning Distribution. 3. Passed the date and location of the Corporation's general shareholders' meeting 2018. 4. Passed the allocation of remuneration and compensation to directors/supervisors and employees 2017. 5. Passed the issue of the Corporation's "Statement of Internal Control System" for 2017. 6. Revise a number of articles on the articles of organization of the compensation committee of CMC. 7. Appointment of manager for the training branch. 8. Passed the Corporation's "Regulations Governing Evaluation on Performance of Board of Directors". 9. Passed the evaluation on CPA's independence and competency 2018. 10. Passed lifting of the non-competition restriction on the Corporation's administrators. 11. Proposal for lifting non-compete clause prohibitions for directors of CMC in the 2018 annual shareholders' meeting. 	Already published on the MOPS and implemented with reference to relevant regulations. Motions 1 and 2 were submitted to the general shareholders' meeting 2018 for recognition. Motions 11 were submitted to the general shareholders' meeting 2018 for recognition and resolution.

2. Major Resolutions at Shareholders Meetings

Date of Meeting	Important resolution	Implementation
06.28.2017	1. Recognition of the final account book 2016.	Already published on the MOPS.
	2. Recognition of allocation of earnings 2016.	The cash dividend allocated at NT\$1.6 per share. The record date was set on July 28, 2017, and the dividend was granted on August 23, 2017.
	3. Passed the revisions to the "Procedure for the Conduct of Derivatives Trading".	Already posted on the Corporation's website and implemented per the resolution.

Corporate Governance

Date of Meeting	Important resolution	Implementation
	4. Passed the partial revision to the “Procedure for the Acquisition and Disposal of Assets” of CMC.	Already posted on the Corporation’s website and implemented per the resolution.
	5. Passed the lifting of non-competition restrictions on the Corporation’s directors of 19th term.	Already implemented per the resolution.

(XIII) Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors during the 2017 Calendar Year and up to March 31, 2018: None

(XIV) Resignation or Dismissal of Chairperson, President, and General Manager of Accounting, Finance, Internal Audit and R&D during the 2017 Calendar Year and up to March 31, 2018:

Title	Name	Inaugural Date	Change Date	Reason for Change
General Manager of R&D (Executive Vice President)	Ching-Ya Chen	Jan 1, 2015	Nov 1, 2017	Transfer to the position in another company of Yulon group.

Corporate Governance

IV. Information Regarding Audit Fees

Audit Fees

Accounting Firm	Name of CPA	Audit Period	Note
Deloitte & Touche	Chih-Ming Shao, Shiow-Ming Shue	2017.01.01~2017.09.30	Internal relation within the CPA firm.
	Chih-Ming Shao, Ya-Ling Wong	2017.10.01~2017.12.31	

Item		Audit Fee	Non-Audit Fee	Total
Range of the Amount				
1	Below 2,000 thousands		✓	
2	2,000 thousands (included) ~ 4,000 thousands			
3	4,000 thousands (included) ~ 6,000 thousands			
4	6,000 thousands (included) ~ 8,000 thousands			
5	8,000 thousands (included) ~ 10,000 thousands	✓		✓
6	10,000 thousands (included) and above			

1. When the non-audit fees paid to CPA, the firm of CPA and its affiliates are more than one fourth of the audit fee, disclose the amounts of audit and non-audit fee and the content of non-audit services:

Unit : Thousand

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					Audit Period	Note
			System Design	Company Registration	Human Resource	Other (note)	Subtotal		
Deloitte & Touche	Chih-Ming Shao, Shiow-Ming Hsue	8,280	-	154	-	290	444	2017.01.01~ 2017.09.30	Fees for Transfer Pricing, etc.
	Chih-Ming Shao, Ya-Ling Wong							2017.10.01~ 2017.12.31	

Note: If the "other" of non-audit fee reaches 25% of non-audit fee, specify its service content in the note.

2. Replace the accounting firm and the audit fee paid in the year of replacement is less than the audit fee in previous year, disclose the amount of audit fee before and after the replacement and its reasons: N.A.
3. For the audit fee is reduced more than 15 percent as comparing to previous year, disclose the amount reduced, percentage and reason: N.A.

V. Information Regarding Replacement or Rotation of Accountants

(I) Regarding the former CPA

Date of Replacement	October 2017		
Reason and Description of Replacment	Due to relevant regulatory requirements on rotation, Deloitte & Touche has rotated audit partners in 2017, the CPA Ya-Ling Wong succeeded the duty of original CPA Shio-Ming Hsue in October 2017.		
Reason for termination or rejection of appointment	Related Party	CPA	Appointer
	Status	(NA)	(NA)
	Voluntary termination of appointment	(NA)	(NA)
Opinion and reason for any report otherthan unqualified opinion in last two years	Reject the (continued) appointment	(NA)	(NA)
	Partial long-term investment under equity method is recognized based on the audit report of other CPA and therefore the modified unqualified opinions are issued.		
Any disagreement with the issuer	Yes	-	Accounting principle or practice
		-	Disclosure of financial statement
		-	Scope or steps of audit
		-	Other
	No	✓	
Note	-		
Other disclosure (items to be disclosed in accordance with article 10.5.(1)(iv) of Regulations Governing Information to be Published in Annual Reports of Public Companies)	None		

(II) Regarding the successive CPA

Account Firm	Deloitte & Touche
Name of CPA	CPA Ya-Ling Wong
Date of Appointment	October 2017
The items and results of possible opinion on the financial report aiming at accounting methods or accounting principles applied to specific transactions as enquired before the appointment	NA
The written opinions of successive CPA which are different from the former CPA	None

(III) The former CPA written response to the matters referred to in article 10.5.(1) and article 10.5.(2) (ii) of Regulations Governing Information to be Published in Annual Reports of Public Companies: N.A.

VI. Chairperson, Prsident and General Manager of Financial Affairs or Accounting Working in CMC's Independent Audit Firm or its affiliates during 2017: None

Corporate Governance

VII. Changes in Shareholding of Directors, Managers and Major Shareholders

(I) Share transfer and change in pledged shares of directors, managers and shareholders holding more than 10% of shares

Unit: share

Title	Name	2017		As of March 31, 2018	
		Change in Shareholding	Increase (decrease) on pledged shares	Change in Shareholding	Increase (decrease) on pledged shares
Director (Note1)	Tai-Yuen Textile Co., Ltd.	-	(12,300,000)	-	-
Director	Yulon Motor Co., Ltd.	-	-	-	-
Director (Note1)	Mitsubishi Motors Corporation	-	-	-	-
Director	Mitsubishi Corporation	-	-	-	-
Director	Le Wen Enterprise Co., Ltd.	-	-	-	-
Chairperson	Kenneth K. T. Yen	-	-	-	-
Vice Chairman	Hsin-Tai Liu	-	-	-	-
Director	Katsuro Asaoka (Note2)	-	-	-	-
Director	Hsin-I Lini	-	-	-	-
Director	Li-Lien Chen	-	-	-	-
Director	Kuo-Rong Chen	-	-	-	-
Director	Setsuya Yoshino (Note2)	-	-	-	-
Director /Prsident	Chao-Wen Chen	-	-	-	-
Independent Director	Chen-Chi Hsiao	-	-	-	-
Independent Director	Chi-Ching Chen	-	-	-	-
Independent Director	Yun-Hua Yang	-	-	-	-
Executive Vice President	Te-Jun Lo	-	-	-	-
Vice President	Ching-Wu Chien	-	-	-	-
Vice President	Shing JuChen	-	-	-	-
Vice President	Hung-Ching Yang	-	-	-	-
Vice President	Min-Chang Lee	-	-	-	-
Special Assistant (Vice President)	Koju Huang	-	-	-	-
Vice President	Chiung-chih Tseng	-	-	-	-
Accounting and Finance Supervisor	Mei-Chu Tai	-	-	-	-

Note1: Shareholders holding over 10% of issued shares.

Note2: Mitsubishi Motors Corporation assigned Mr. Eiichi Takasawa in replacement of Mr. Katsuro Asaoka as its representative from May 1, 2018.

And Mitsubishi Corporation assigned Mr. Takayasu Yonekura in replacement of Mr. Setsuya Yoshino as its representative from April 1, 2018.

(2) When the opponent party of shares transfer or pledge is a related party, disclose the name of the opponent party, the relation with the Corporation, directors, supervisors and shareholders holding over 10% of shares and the shares acquired or pledged: None.

Corporate Governance

VIII. Information Disclosing the Relationship between any of the Top Ten Shareholders

Name	Shareholding		Spouse & Minor Children Shareholding		Shares Held Through Other Parties		Names and Relationship of Any of the Top Ten Shareholders being A Related Party or spouse or relatives within 2nd degree kinship		Note
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Titel (or Name)	Relation	
Tai-Yuen Textile Co., Ltd.	348,589,538	25.19	-	-	-	-	Yulon Motor Co., Ltd.	Same chairperson	-
							Diamond Hosiery & Thread Co., Ltd.	Same chairperson	-
							Kenneth K. T. Yen	Chairperson	-
Representative : Hsin-I Lin	-	-	-	-	-	-	-	-	-
Representative : Kuo-Rong Chen	-	-	-	-	-	-	-	-	-
Representative : Hsin-Tai Liu	14,560	-	-	-	-	-	-	-	-
Mitsubishi Motors Corporation	193,768,273	14.00	-	-	-	-	Mitsubishi Corporation	Investee under equity method	-
Representative : Katsuro Asaoka	-	-	-	-	-	-	-	-	-
Yulon Motor Co., Ltd.	111,480,444	8.05	-	-	-	-	Tai-Yuen Textile Co., Ltd	Same chairperson	-
							Diamond Hosiery & Thread Co., Ltd.	Same chairperson	-
							Kenneth K. T. Yen	Chairperson	-
Representative : Kenneth K. T. Yen	16,621,212	1.20	-	-	-	-	Li-Lien Chen	Spouse	-
Representative : Li-Lien Chen	-	-	16,621,212	1.20	-	-	Kenneth K. T. Yen	Spouse	-
Diamond Hosiery & Thread Co., Ltd.	93,596,630	6.76	-	-	-	-	Tai-Yuen Textile Co., Ltd.	Same chairperson	-
							Yulon Motor Co., Ltd.	Same chairperson	-
							Kenneth K. T. Yen	Chairperson	-
Mitsubishi Corporation	66,404,796	4.80	-	-	-	-	Mitsubishi Motors Corporation	Invester under equity method	-
Representative : Setsuya Yoshino	-	-	-	-	-	-	-	-	-
Cathay Life Insurance Co., Ltd.	50,382,000	3.64	-	-	-	-	-	-	-
Nan Shan Life Insurance Company, Ltd.	17,637,000	1.27	-	-	-	-	-	-	-
Kenneth K. T. Yen	16,621,212	1.20	-	-	-	-	Tai-Yuen Textile Co., Ltd.	Chairperson of said company	-
							Yulon Motor Co., Ltd.	Chairperson of said company	-
							Diamond Hosiery & Thread Co., Ltd.	Chairperson of said company	-
Investment account at the Norges Bank under the custody of Citibank	15,647,196	1.13	-	-	-	-	-	-	-
Taiwan Life Insurance Co., Ltd.	13,274,000	0.96	-	-	-	-	-	-	-

Corporate Governance

IX. Long-Term Investment Ownership

March 31, 2018

Investee	Investment of the Corporation		Investments of Directors, Supervisors, Managers and Businesses with Shares Directly or Indirectly Held by the Corporation		Syndicated Investments	
	Shares	Shareholding %	Shares	Shareholding %	Shares	Shareholding %
Yulon Motor Co., Ltd.	262,228,166	16.67	453,465,472	28.83	715,693,638	45.50
Kian Shen Corporation	32,201,367	43.87	51,915	0.07	32,253,282	43.94
Hwa Wei Holdings Co., Ltd.	40,000	40.00	60,000	60.00	100,000	100.00
China Motor Investment Co., Ltd.	40,000	100.00	-	-	40,000	100.00
Fortune Motors Co., Ltd	132,116,729	41.01	31,021,658	9.63	163,138,387	50.64
Sino Diamond Motor Corporation	325,786,161	100.00	-	-	325,786,161	100.00
Alliance Investment & Management Co., Ltd.	183,000,000	100.00	-	-	183,000,000	100.00
ROC Spicer Ltd.	1,422,360	29.00	1,003,584	20.46	2,425,944	49.46
Tokio Marine Nawa Insurance Co., Ltd.	61,510,524	20.57	52,009,524	17.39	113,520,048	37.96
Daimler Vans Hong Kong Ltd.	46,565,750	32.45	-	-	46,565,750	32.45
Shung Ye Motor Enterprise	27,348,599	39.98	11,401	0.02	27,360,000	40.00
Gatetech Technology Inc.	24,725,155	56.53	7,140,410	16.33	31,865,565	72.86
COC Tooling & Stamping Co., Ltd.	33,564,678	49.76	33,892,952	50.23	67,457,630	99.99
Uni-calsonic Corp.	4,523,525	23.20	4,426,275	22.70	8,950,000	45.90
China Engine Corporation	32,000,000	18.95	88,000,000	52.10	120,000,000	71.05
Hua-Chuang Automobile Information Technical Center Co., Ltd.	100,000,000	20.00	300,000,000	60.00	400,000,000	80.00
Uni Auto Parts Manufacture Co., Ltd.	13,032,137	15.00	21,728,516	25.00	34,760,653	40.00
Sinjang Co., Ltd	8,567,750	20.01	8,567,950	20.01	17,135,700	40.02
Huang Chung Motor Co., Ltd.	8,790,000	100.00	-	-	8,790,000	100.00
Shin Gan Co., Ltd.	7,074,057	24.67	11,636,355	40.59	18,710,412	65.26
Yulon IT Solutions Inc.	8,331,999	43.85	10,668,001	56.15	19,000,000	100.00
Hua Han Corporation (in the course of liquidation)	521,161	48.99	542,429	51.00	1,063,590	99.99

Note: The investees are investment of the Corporation under equity method.

Capital Overview

I. Capital and Shares

(I) Sources of Capital

Unit: thousand shares; NTD thousand

Month/Year	Issue Price (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount	Shares	Amount	Source of capital	Capital Increase by assets Other than Cash	Other
09/2007	10	1,800,000	18,000,000	1,391,301	13,913,008	Capital increment by earning	-	2007/09/14 Jing Shou Shang No. 9601227310
01/2011	10	1,800,000	18,000,000	1,384,051	13,840,508	Cancellation of treasury stocks	-	2011/01/17 Jing Shou Shang No. 10001001380

(II) Type of stock

April 29, 2018

Type of Stock	Authorized Capital		
	Issued Shares (share, note)	Unissued Shares (share)	Total
Inscribed common stock	1,384,050,854	415,949,146	1,800,000,000

Note: TWSE listed stock.

(III) Status of Shareholders

April 29, 2018

Type of Shareholders Qty	Government Agencies	Financial Institutions	Other Judicial Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	3	38	133	40,063	299	40,536
Shareholding (share)	11,938,000	101,624,037	637,636,618	189,802,542	443,049,657	1,384,050,854
Shareholding (%)	0.86	7.34	46.07	13.71	32.02	100.00

Capital Overview

(IV) Shareholding Distribution Status

April 29, 2018

Shareholder Ownership (share)	Number of Shareholders (person)	Onwership (share)	Ownership (%)
1~ 999	16,745	2,931,860	0.21
1,000~ 5,000	17,117	36,824,942	2.66
5,001~ 10,000	3,328	25,042,145	1.81
10,001~ 15,000	1,143	13,696,460	0.99
15,001~ 20,000	609	11,114,222	0.80
20,001~ 30,000	527	12,947,225	0.94
30,001~ 40,000	244	8,543,604	0.62
40,001~ 50,000	196	9,145,336	0.66
50,001~ 100,000	262	18,959,646	1.37
100,001~ 200,000	136	19,427,256	1.40
200,001~ 400,000	81	23,296,936	1.68
400,001~ 600,000	37	18,633,110	1.35
600,001~ 800,000	20	13,794,643	1.00
800,001~ 1,000,000	14	12,246,082	0.89
Over 1,000,000	77	1,157,447,387	83.62
Total	40,536	1,384,050,854	100.00

(V) List of Major Shareholders

April 29, 2018

Shareholders	Share	Total Shares Owned (share)	Ownership (%)
1. Tai-Yuen Textile Co., Ltd.		348,589,538	25.19
2. Mitsubishi Motors Corporation		193,768,273	14.00
3. Yulon Motor Co., Ltd.		111,480,444	8.05
4. Diamond Hosiery & Thread Co., Ltd		93,596,630	6.76
5. Mitsubishi Corporation		66,404,796	4.80
6. Cathay Life Insurance Co., Ltd.		50,382,000	3.64
7. Nan Shan Life Insurance Company., Ltd.		17,637,000	1.27
8. Kenneth K. T. Yen		16,621,212	1.20
9. Investment account at the Norges Bank under the custody of Citibank		15,647,196	1.13
10. Taiwan Life Insurance Co., Ltd.		13,274,000	0.96

Capital Overview

(VI) Market Price, Net Worth, Earnings, and Dividends per Share

Item		Year	2016	2017	As of March 31, 2018
Market Price Per Share (NTD)	Highest		27.50	29.75	27.60
	Lowest		20.55	25.30	25.75
	Average		23.62	27.53	26.70
Net Worth Per Share (NTD)	Before distribution		35.71	36.81	- (Note3)
	After distribution		34.11	36.81 (Note1)	- (Note3)
Earning Per Share (NTD)	Weighted average shares (thousand shares)		1,384,051	1,384,051	1,384,051
	Earning per share		2.34	3.01	- (Note3)
Dividend Per Share (NTD)	Cash dividend (note 2)		1.50	1.60	-
	Stock dividend	-	-	-	-
		-	-	-	-
	Accumulated undistributed dividend		-	-	-
Return on Investment	Price/earning ratio		10.09	9.15	-
	Price/dividend ratio		15.75	17.21	-
	Cash dividend yield rate		6.35%	5.81%	-

Note: 1. The 2018 shareholders' meeting has not yet been convened, and the earning distribution is not yet confirmed. Therefore, the EPS amounts before and after distribution are the same.

2. The earning distribution in previous year.

3. Up to the publication date of March 31, 2018, of this Report, there is no financial figure of the first quarter reviewed by the CPA that has not been disclosed.

(VII) Corporate Dividend Policy and Implementation Status

1. Dividend policy

The dividend policy in the current version of the Articles of Incorporation is as follows:

If there is a profit after the annual closing of books, the Corporation shall, after having provided for taxes and covered the losses of previous years by law, appropriate ten percent (10%) of the net profit after tax to the legal reserve. The remainder plus undistributed earnings from prior years should be distributed as dividends as recommended by the board of directors and approved by the stockholders in their meeting.

The Corporation is operated in a mature and stable industry. Dividends are distributed with reference to the organizational profitability, capital demand for future business plans, and industry environment change. In addition, the dividend distribution plan is made with reference to shareholder benefit and long-term

Capital Overview

organizational financial planning. Dividend distribution is not less than 40% of the net income, but there'll no dividend distribution in deficit year. Dividends are distributed in the form of cash or stock. The amount of cash distributed each year shall not be less than 20% of the total amount of dividends issued.

2. Proposed dividend allocation plan at the present Shareholders Meeting:

The profit allocation plan of 2017 was established by the board to distribute cash dividend at NT\$1.80 per share.

The profit for allocation was appropriated from the unallocated profit of 2017.

If the Corporation decided to re-purchase company shares or assign treasury stock to employees and such decision affects the number of shares circulating on the market on the dividend distribution base date, the shareholders' meeting will be requested to authorize the board to adjust the dividend ratio.

(VIII) The Impact of Stock Dividend Issuance on Business Performance and EPS: N.A.

(IX) Employees' Compensation and Remuneration to Directors

1. The percentage or scope of employee' compensation and remuneration to directors specified in articles of incorporation

The policy in the current version of the Articles of Incorporation is as follows:

- (1) No higher than 0.5% of net profit before income tax as remunerations for directors.
- (2) Not less than 0.1% of net profit before income tax as employee' compensation in the form of cash or stock approved by the BOD. In either form, employee' compensation should also be distributed to employees of affiliated companys complying with certain requirements established by the board.

The employee' compensation and remuneration to directors should be approved by the BOD and then be presented on Shareholders Meeting.

There should be reservation for losses of previous years and then the residential balance should be distributed accroding to the ratio stipulated in Articles of

Incorporation.

According to a fixed percentage(0.5% in the last 3 years) of net profit before income tax deduct the employee' compensation and remuneration to directors as remunerations for directors.

2. The accounting for the discrepancy between actual amount distributed and the estimated amount arised from differences of the basis of estimate of employee' compensation and remuneration to directors and supervisors

The Corporation has made as most appropriate estimate and recognized the expenses pursuant to the percentage of employee' compensation and remuneration to directors and supervisors as set forth in the Articles of Incorporation. If there is significant change with the proposed amount by the BOD afterward, the change shall be recognized as expenses in current year (the year of recognizing expenses). If the actual amount of distribution changes upon the amount approved by the BOD in next year, then the change will be carried to the profit and loss of next year in principle of change in accounting estimate.

3. Employee' Compensation and Remuneration to Directors and Supervisors approved by BOD

- (1) The employee' compensation and remuneration to directors and supervisors in cash and stock. Where there is discrepancy between the expenses recorded and the estimated, disclose the amount, reason and handling of difference

The 2017 proposal concerning the employee' compensation and remuneration to directors had been approved by the 11th meeting of 19th term of BOD on March 26, 2018. It is approved to distribute \$45,459 thousands to employees as compensation and \$22,036 thousands to directors as remunerations, which are identical to the estimate in the year of recording expenses. In case the actual distribution amount is changed upon the resolution of BOD, it will be deemed as change of accounting estimate and will be adjusted in the actual distributing year.

In addition to allocating the aforementioned employees' compensation, the CMC

Capital Overview

also issued other bonuses such as the three major festivals, end of year bonuses, and business team growth and performance awards on the basis of business performance and personal performance by the employee to encourage workers to generate better performance for the Company as well as shareholders.

- (2) The percentage of stock employee' compensation over the net income and the total employee' compensation

There was no stock employee' compensation distributed in 2017 and therefore this is not applicable

4. The actual distribution of employee profit sharing and compensation to directors and supervisors (including the number of shares, amount and share price), the amount, reason and handling of difference from the recognized employee profit sharing and compensations to directors and supervisors.

The 2016 employee profit sharing and compensation to directors and supervisors had been approved by the 5th meeting of 19th term of BOD on March 27, 2017. The proposed cash bonus to employees was 18,426 thousands and 17,822 as compensation to directors, which were identical to the actual amount distributed after the shareholders' meeting.

(X) Buyback of Treasury Stock: None

II. Issuance of Corporate Bonds: None

III. Issuance of Preferred Stock: None

IV. Issuance of Depository Receipts: None

V. Status of Employee Stock Option Plan and Employee Restricted Stock: None

VI. Status of New Share Issuance in Connection with Mergers and Acquisitions:
None

VII. Financing Plans and Implementation: N.A.

Operational Highlights

I. Business Activities

(I) Business Scope

1. The Main Content of the Corporation's Business:

- (1) CA01090 Aluminum Casting Manufacturing
- (2) CB01010 Machinery and Equipment Manufacturing
- (3) CC01010 Electric Power Supply, Electric Transmission and Power Distribution Machinery Manufacturing
- (4) CD01030 Automobiles and Parts Manufacturing
- (5) CD01040 Motor Vehicles and Parts Manufacturing
- (6) CD01050 Bicycles and Parts Manufacturing
- (7) CC01090 Batteries Manufacturing
- (8) CD01990 Other Transport Equipment and Parts Manufacturing
- (9) CQ01010 Die Manufacturing
- (10) E603050 Cybernation Equipments Construction
- (11) E603100 Electric Welding Construction
- (12) E604010 Mechanical Installation Construction
- (13) E605010 Computing Equipments Installation Construction
- (14) F106030 Wholesale of Mold
- (15) F112040 Wholesale of Petrochemical Fuel Products
- (16) F113010 Wholesale of Machinery
- (17) F113110 Wholesale of Batteries
- (18) F113020 Wholesale of Household Appliance
- (19) F113070 Wholesale of Telecom Instruments
- (20) F114010 Wholesale of Automobiles
- (21) F114020 Wholesale of Motorcycles
- (22) F114030 Wholesale of Motor Vehicle Parts and Supplies
- (23) F114040 Wholesale of Bicycle Parts and Supplies
- (24) F114050 Wholesale of Tire and Tubes
- (25) F119010 Wholesale of Electronic Materials
- (26) F206030 Retail Sale of Die
- (27) F212050 Retail Sale of Petroleum Products

Operational Highlights

- (28) F213010 Retail Sale of Household Appliance
- (29) F213060 Retail Sale of Telecom Instruments
- (30) F213110 Retail Sale of Batteries
- (31) F214010 Retail Sale of Automobiles
- (32) F214020 Retail Sale of Motorcycles
- (33) F214030 Retail Sale of Motor Vehicle Parts and Supplies
- (34) F214040 Retail Sale of Bicycles and Parts
- (35) F214050 Retail Sale of Tires and Tubes
- (36) F219010 Retail Sale of Electronic Materials
- (37) F401010 International Trade
- (38) F401021 Restrained Telecom Radio Frequency Equipments and Materials Import
- (39) F501990 Other Eating and Drinking Places Not Elsewhere Classified
- (40) H703100 Real Estate Rental and Leasing
- (41) I102010 Investment Consultancy
- (42) I103060 Management Consulting Services
- (43) I301010 Software Design Services
- (44) I401010 General Advertising Services
- (45) I501010 Product Designing
- (46) IE01010 Telecommunications Number Agencies
- (47) IZ01010 Copying Services
- (48) IZ02010 Typewriting Services
- (49) IZ04010 Translation Services
- (50) IZ12010 Manpower Services
- (51) J901020 Hotels and Motels
- (52) J903020 Mountain Climbing Guiding Services
- (53) JA01010 Automotive Repair and Maintenance
- (54) JA01990 Other Automobile Services
- (55) JA02010 Electric Appliance and Audiovisual Electric Products Repair Shops
- (56) JA02020 Motorcycle Repair Shops
- (57) JA02030 Bicycle Repair Shops
- (58) JB01010 Exhibition Services

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- (59) JE01010 Rental and Leasing Business
- (60) J202010 Industry Innovation and Incubation Services
- (61) F106010 Wholesale of Ironware
- (62) CC01020 Electric Wires and Cables Manufacturing
- (63) CC01030 Electric Appliance and Audiovisual Electric Products Manufacturing
- (64) CC01080 Electronic Parts and Components Manufacturing
- (65) IZ99990 Other Industry and Commerce Services Not Elsewhere Classified
- (66) ZZ99999 Other than licensed businesses, to manage and operate businesses not prohibited or restricted by law

2. Revenue distribution

Manufacture and sales of vehicles and related components accounted for 96% of revenue.

3. Current Products of Company

- Commercial vehicles:

- LEADCA 3.49T series

- DELICA 2.4L series

- VERYCA 1.2L/1.3L series

- FUSO 3.49 ~ 17T series

- Sedans:

- GRAND LANCER 1.8L series

- COLT PLUS 1.5L series

- Recreational/Business vehicles:

- OUTLANDER 2.4L car series

- ZINGER 2.4L car series

- Electric vehicles:

- Electric scooter series: emoving, emoving plus, emoving young, emoving Super and emoving Post

- Electric bike: emoving Bobe and emoving Shine

4. New products to be developed in the future

Our plans for the development of new products during the next three years aim to meet market demands and create sales topics. We will continue to unveil innovative and cutting-edge types on the basis of our current models in order to enhance the competitiveness

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of our products and the power of product in each market segment. With comprehensive marketing strategies, our sales performance will improve. In addition, starting from 2020, we seek the release of at least one next-generation product annually to raise Mitsubishi's brand visibility.

As the market of electric two-wheelers shows significant growth, the electric vehicles we plan to develop include:

- (1) New color of the emoving Shine electric bike, expected to be unveiled in May. With fashionable appearance and practical accessories, the product looks more charming and can bring fresh experience to boost the sales of electric bikes.
- (2) New types of the emoving and emoving Super electric scooters with re-designed appearance, expected to be unveiled in December. The design is in line with the streamline appearance preferred by young people. With upgraded power and common charging specification, the product aims to secure a place in the market of lightweight electric scooters for short-distance ride.
- (3) New general heavyweight type of the emoving electric scooter, expected to be unveiled in 2019. With a streamline appearance, the product puts emphasis on safety, technology and ergonomics and seeks a place in the market of general heavyweight scooters. The product provides a fast mode for charging outside your house and a slow mode for charging inside your house to lower the costs of consumer usage. For the purpose of market competition, we plan to unveil three to five types during the next years.

(II) Industry Overview

1. Current status and development of the industry

In recent years, about 300 thousand - 450 thousand cars were sold a year in Taiwan. Thanks to the economic recovery, massive JPY depreciation, and new model launch of different automakers, over 444.6 thousand cars were sold in Taiwan last year (2017), which was a 1.1% growth compared to the 439.6 thousand cars of 2016.

According to data released by the National Development Council, the Purchasing Managers Index (PMI, if > 50 = expansion of business) of the manufacturing sector in December last year (2017) was 58.0. It shows that business has been expanding for 22 consecutive months, indicating continuous economic growth in Taiwan. It is predicted that in 2018, the continuous recovery of the global economy will boost Taiwan's exports and benefit us. We will also

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benefit from the “Forward-Looking Infrastructure Development Program” promoted by the government. Forecasts for Taiwan’s economic growth in 2018 provided by different research agencies are: 2.42% (Directorate-General of Budget, Accounting, and Statistics), 2.34% (Taiwan Institute of Economic Research), and 2.27% (Chung-hua Institute for Economic Research).

Despite predictions for continuing economic growth in 2018, there are still many uncertainties in Taiwan and the rest of the world, while bonus effects for vehicle replacement policies are gradually wearing off with each passing year. Predictions for the passenger car market are expected to reach 430 thousand cars (and 440 thousand including heavy vehicles) in 2018. These figures are slightly less compared to vehicle sales for this year (2017) of 434.7 thousand cars (444.6 thousand including heavy vehicles).

2. Interrelations among up-, mid-, and down-stream industries

The auto industry is a technology- and capital-intensive industry covering a wide range of industries, including parts and components at upstream, the whole car manufacture at midstream, and sales and after service at downstream, and each part are closely interrelated with one another. In terms of the interrelation between parts and components and whole car manufacture, as car manufacture and assembly involves complex processes and require over ten thousand parts, part and component suppliers and the auto-making plants form a satellite-center system with long-term, steady cooperation. As the internal interrelation of the auto industry is close, each auto-making plant will launch vertical integration with upstream and downstream suppliers at different levels.

3. Developmental trends of product

The auto market in Taiwan is highly competitive, and different automakers launch different models to create different, new market segmentations. In addition, to cope with the global environmental protection trend and the advent of high oil price era, automakers will emphasize on new engine cars, hybrid cars, Plug-in hybrid electric cars and even pure electric cars. The Corporation will also assess the implementation or relevant R&D technologies and models.

4. Product competition

After long-term competitions, domestic cars have shared nearly 57.9% of the market. In the

future, the Corporation will continue to engage in R&D and production to enhance product competitiveness and thereby fulfill the constantly changing demand of consumers and market environment.

(III) Technology and R&D overview

1. R&D Expenses

In 2017 the R&D expenses were NT\$1,444,708 thousand. In 2017 the consolidated R&D expenses were NT\$2,027,795 thousand.

2. Successfully developed technology and products in 2017 and by 31 March 2018

- (1) Febuary 2017: Completed the development and began mass production and sales of the ZINGER with enhanced competitiveness.
- (2) March 2017: Completed the development and began mass production and sales of the GRAND LANCER all new revised version.
- (3) May 2017: Completed the development and began mass production and sales of the OUTLANDER with enhanced competitiveness.
- (4) May 2017: Completed the development and began mass production and sales of the emoving and emoving Plus in special edition.
- (5) June 2017: Completed the development and began mass production and sales of the COLT PLUS M/C new version.
- (6) October 2017: Completed the development and began mass production and sales of the GRAND LANCER with enhanced competitiveness.
- (7) October 2017: Completed the development and began mass production and sales of the OUTLANDER with enhanced competitiveness.
- (8) October 2017: Completed the development and began mass production and sales of the emoving Shine all new revised version.
- (9) December 2017: Completed the development and began mass production and sales of the ZINGER 2018 vision model for the foregin market.
- (10) December 2017: Completed the development and began mass production and sales of the emoving Post in special post order.
- (11) January 2018: Completed the development and began mass production and sales of the ZINGER in special edition.

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(12) January 2018: Completed the development and began mass production and sales of the electric VERYCA in special post order.

(IV) Long- and short-term business development plan

In the short-term development plan, we will continue to launch models under Mitsubishi or SEM's brand to the Taiwan and China markets and expand the scale of export sales. For long-term development, although the oil price remains in relatively low level last year, it is expected to rise in the long run. To capture the new opportunities from the green energy industry, therefore, the Corporation will aggressively engage in developing electrical 2-wheels production and relative power kits. Therefore, the Corporation will continue out three-fold long-term development strategy: "cultivation of the Taiwan market", "expansion of the China market and export sales", and "entry to the green energy business", so as to maintain profit, sustain business growth, and pursue sustainable operations.

II. Market, production, and sales overview

(I) Market analysis

1. Market condition of auto sales

Our product lineup includes commercial cars, sedans, RVs and vans. Currently, Taiwan is the principal market. In 2017, a total of 48,184 sedans and commercial vehicles (3.5 t and under, including imported models), commanding 11.1% of the market. This figure included 5,866 sedans, reaching 2.9% of the sedan market; 14,518 RVs, gaining 7.5% of the RV market; and 27,800 commercial vehicles (3.5t and under), achieving 73.2% of the commercial vehicle market. In addition, a total of 2,158 heavy vehicles over 3.5t were sold, taking 21.7% of the heavy vehicle market (these figures referred to registered vehicles).

2. Future supply and demand and growth of the auto market

Under the influence of the macro environment, domestic auto sales began to drop significantly from a peak of 510 thousand cars in 2005 to only a half at 229 thousand cars in 2008. As the economy gradually recovered and with the favorable factors came from the government in recent years, auto sales rose back to over 400 thousand cars in last two years. Total vehicle sales last year (2017) nearly reached 440 thousand cars, a 1.1% growth compared to the previous year. In the future, it is estimated that sales (includes heavy vehicles) will maintain at 400 thousand to 450 thousand cars a year for the short run.

New or revised models from different brands in 2018:

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CMC's OUTLANDER/ZINGER/VERYCA, TOYOTA VIOS, MAZDA3, NISSAN KICKS/X-TRAIL and HYUNDAI KONA, etc.

3. Competition strategy in the auto market

As the auto market in Taiwan is exceptionally challenging, the Corporation will aggressively cultivate the Taiwan market, expand the China market, increase international sales, and develop self-owned technology as described below:

Favorable factors

- (1) After years of diligent cultivation, the Corporation has established an excellent brand image with great word of mouth that has won consumer identification and recognition. Moreover, we have successfully established the No. 1 brand image of commercial vehicle in consumers.
- (2) After independently developing technology for decades, the Corporation has established solid technology R&D foundation and capability and partner recognition. Today, the Corporation is part of the international division of labor system of Mitsubishi Motors and has exported whole cars and parts to Southeast Asia, the Middle East, and Latin America.
- (3) The Corporation has established a well-connected sales and service network and complete horizontally integrated business system with service scope covering auto sales, property insurance, car-owner service, car rental, pre-owned car trade, and magazine to comprehensively and effectively enhance organizational competitiveness.
- (4) Solid sales system support: At present, Fortune Motors Co., Ltd. and Shung Ye Motor are the two distributors of our sedans, RVs, and commercial vehicles, and Yu Ye Motor is the distributor of our heavy commercial vehicles (including the 3.5t Canter). All of them are leading vehicle distributors in Taiwan.

Unfavorable factors

- (1) Other automakers launch competitive (low fuel consumption and low price) new sedans manufactured in Taiwan, commercial vehicles, and RVs.
- (2) Imported cars are sold at prices close to those of domestic cars in the market, and their market share is increasing year by year. Last year (2017), the market share of imported cars was over 40%.

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Countermeasures

- (1) Cultivating the Taiwan market: Mitsubishi and own brand dual-line product development, product competitiveness enhancement, shortening product R&D time.

As Taiwan is the fundamental market of CMC, the Corporation will continue to cultivate the Taiwan market. Apart from aggressively striving for new model development with Mitsubishi Motors, the Corporation will develop other products and launch competitive new models, so as to meet the needs for the Taiwan market and shorten product launch time.

CMC also continued to target customer requirements to develop automotive parts to meet various requirements of the consumers, improve brand adherence and loyalty, and intent for repurchasing.

- (2) Expanding China market: Integrating with international resources and strengthening competitiveness in the China market with SEM as the core.

A. After importing resources from Mitsubishi Motors, SEM, a CMC re-invested business with controlling power in China, has launched a dual-brand strategy featuring Mitsubishi and own-brand SEM. In 2017 a total of 150 thousand cars were sold, a new record high. The all-new small SUV DX3 was released in 2017 proved popular in the market. We will release electric vision in 2018, and sales are expected to reach higher record in the future. Plans have also been made to release a all new cars and DX7 enhanced competitiveness in 2018, and such efforts are expected to greatly improve sales figures compared to last year. In the future, the Corporation will maintain close connection with SEM and establish a strategic relationship with SEM to cultivate cross-strait markets.

B. In addition, Fujian Benz Automotive Co., Ltd., a joint venture established among CMC, Daimler AG and Fujian Motor and BAIC Motor, was officially established in 2007. With the resources of SEM OEM plant in Qingkou, Fujian Benz manufactures and distributes high-grade Mercedes sedans to occupy the special niche market, thus enabling CMC to accomplish its product lineups in the China market and become two major pillars of our business in China along with SEM.

In last year (2017), the all-new luxury VS20 (equipped with the latest Downsizing Turbo engine from Benz) has been well-received by the market, reaching an annual

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sales volume of 22.5 thousand cars. For 2018, CMC shall continue to leverage the popularity of VS20 and continue to offer multiple interior and external schemes. Sales are expected to keep growing for this year (2018).

- (3) Aggressive participation in the international division of labor system and expanding export scale

Cooperating with the global market development strategy of Mitsubishi Motors, the Corporation will continuously enhance product cost competitiveness to strive for OEM and export contracts of Mitsubishi models, and be a division of labor in the development of global types. In the future, the Corporation will continue to strive for more export opportunities and more export models from Mitsubishi Motors.

- (4) Strengthening technical R&D capability

After establishing the China-motor Car Asia Research & Technology Center, the Corporation has developed and revised a number of models (e.g., VERYCA/VARICA, FREECA, GRUNDER, ZINGER, COLT PLUS, LEADCA and GRAND LANCER) based on the demand of Taiwan and China markets. In the future, the Corporation will continue improve independent R&D capability and develop the OEM capability of key parts and components to ensure the market competitiveness of independently developed models and thereby improve self-owned design and R&D capabilities. Besides, in light of the global trend in energy saving and the government policies regarding low-carbon environment, we have put lots of resources in developing technological capabilities for new energy.

4. Electric bikes and scooters:

In 2017, a total of 6,770 emoving scooters were registered, grow 46% over 2016(4,632). After the government began to promote TES (Taiwan E-scooter Standard), a total of 37,941 emoving scooters were sold cumulatively, with a market share at 35%. And we sold 2,602 electric bikes in 2017, a 56% increase from 2016 (1,663).

In last year (2017), sales in the entire electric scooter market reached about 44,100 vehicles, a big rise of nearly 111% from 2016 (20,916). It shows the efforts of the government have begun to bear fruit, and electric scooter have become much more acceptable to the people in Taiwan. Other than continuing our business efforts from last year (2017), this year (2018) we are focusing on sales promotion targeting natural persons. We plan to design new color and

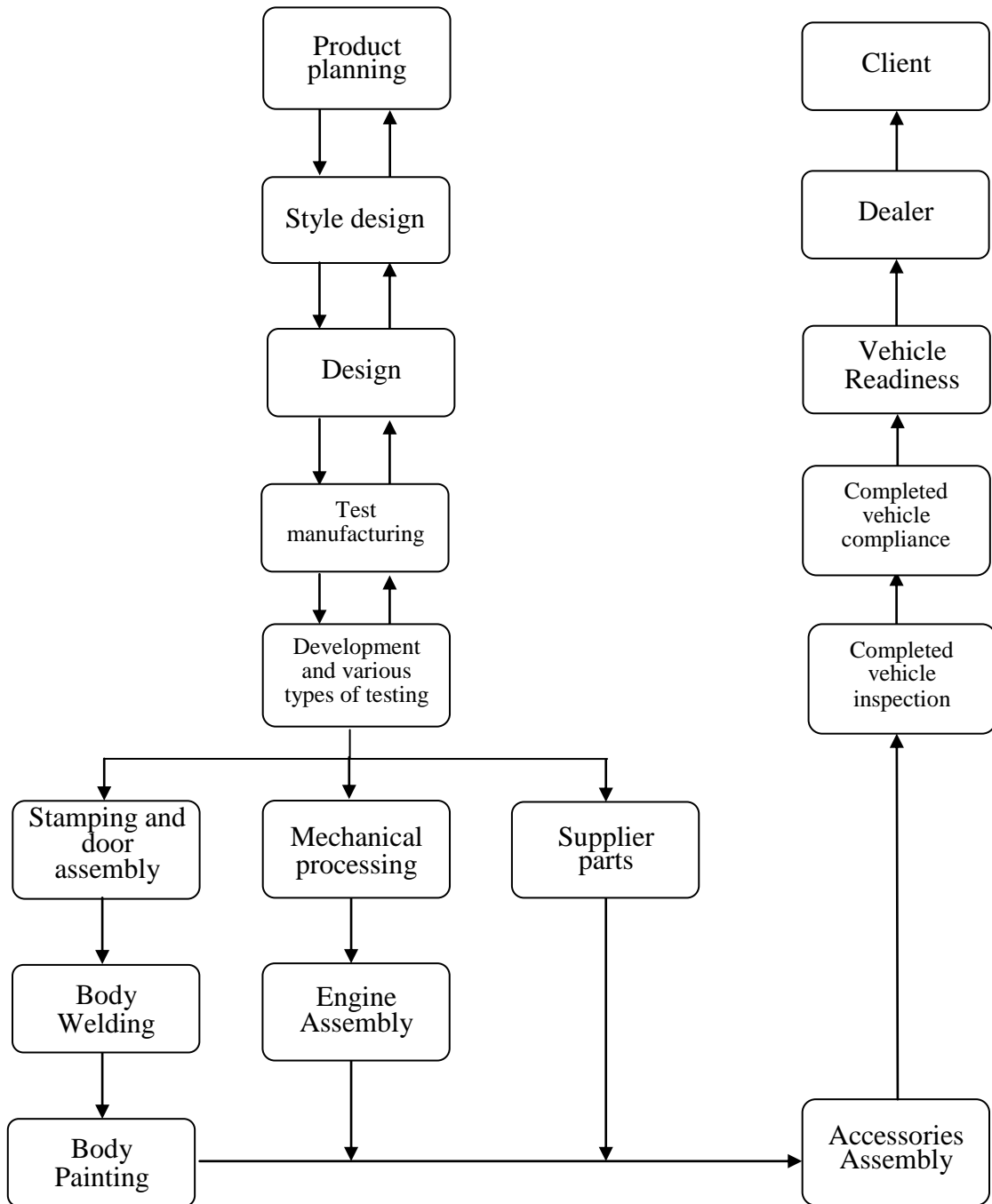
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appearance for electric bikes and scooters in order to make our products more appealing, with the expectation of boosting the sales of electric vehicles. Regarding the expansion of our channels, we plan to increase the number of our specialty and flagship stores to 50 by the end of the year. We hope to provide consumers with high-quality services and better experience and effectively improve image of our brands. We predict that steady sales growth will continue to be maintained throughout the year.

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(II) Main Uses and Production Processes of Major Products

The Corporation mainly produces various types of commercial vehicles, sedans, and RV/business vehicles whose main uses are to carry cargo, passengers and offer leisure. The production processes are shown below:



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(III) Supply Status of Main Materials

The raw materials purchased by the Corporation are mainly parts needed for operations such as car manufacturing, sales and maintenance. International supplier is Mitsubishi Corporation of Japan. Domestic parts supplies are supplied by auto parts third-parties. With long term contracts signed and long term cooperation, supply status of raw materials is very stable.

Major Materials	Major Suppliers	Items	Procurement Strategy
Automotive Parts	Mitsubishi Corporation	Parts such as CKD	Contract signed, delivery in installments
Automotive Parts	117 auto parts suppliers such as Kian Shen Corporation, etc	Auto parts that are domestically produced	Contract signed, delivery in installments
Raw materials	CPC Corporation, Taiwan	Various oil products	Contract signed, delivery in installments
Raw materials	Taiwan Kansai Paint Co. Ltd., etc	Baking varnish, spray paint, solvent, etc	Contract signed, delivery in installments
Raw materials	Nippon Steel and Sumitomo Metal and Chun Yuan Steel Industry Co., Ltd.	Steel Plates	Contract signed, delivery in installments

(IV) Major Suppliers and Clients Taking over 10% of the Amount of Incoming (Sales) over the Last Two Years

1. Major Suppliers

Unit: NT\$ thousands

2016				2017			
Supplier	Procurement Amount	As % of Total Net Procurement	Relation to CMC	Supplier	Procurement Amount	As % of Total Net Procurement	Relation to CMC
South East Motor	4,170,292	16	Investee accounted for using equity method	South East Motor	3,468,357	14	Investee accounted for using equity method
Net Procurement	26,362,609	100	-	Net Procurement	24,472,179	100	-

Note: The table above is base on consolidated information.

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2. Main Customers

Unit: NT\$ thousands

2016				2017			
Customer	Net Sales	As % of Total Net Sales	Relation to CMC	Customer	Net Sales	As % of Total Net Sales	Relation to CMC
Fortune Motors Co., LTD	18,045,415	44	Investee accounted for using equity method	Fortune Motors Co., LTD	18,800,506	48	Investee accounted for using equity method
Yu Ye Motor	6,290,759	15	-	Yu Ye Motor	324,713	1	-
Shung Ye Motor Enterprise	4,631,098	11	Investee accounted for using equity method	Shung Ye Motor Enterprise	5,134,913	13	Investee accounted for using equity method
Daimler Trucks Asia Taiwan Ltd.	-	-	-	Daimler Trucks Asia Taiwan Ltd.	5,828,548	15	-
Net Sales	40,733,485	100	-	Net Sales	38,908,093	100	-

Note: The table above is base on consolidated information.

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(V) Production over the Last 2 Years

Unit: Quantity –Vehicles
Unit: NT\$ thousands

Capacity/ Volume Value Main Products	Year		2016			2017		
	Production Capacity	Production Volume	Production Value	Production Capacity	Production Volume	Production Value		
4-wheeled vehicles	56,880	49,422	21,952,965	56,880	49,977	21,686,882		
2-wheeled vehicles	14,640	6,886	247,600	14,640	8,706	384,665		

Note: The production volume and value in the table above is mainly based on production of car built-up.
Production capacity refers the volume manufactured using existing production equipment operating under normal single shift given considerations to factors such as holidays or days when production ceases.

(VI) Sales over the Last 2 Years

Unit: Quantity –Vehicles (Set)
Unit: NT\$ thousands

Sales Volume Value Main Products	Year		2016				2017			
	Domestic Sales		Exports		Domestic Sales		Exports			
	Volume	Value	Volume	Value	Volume	Value	Volume	Value		
4-wheeled vehicles	46,952	24,431,639	1,280	333,846	49,126	24,562,288	593	146,571		
2-wheeled vehicles	5,941	281,247	-	-	9,245	479,668	-	-		
Sets of parts	-	-	13,530	831,961	-	-	12,270	718,204		

Note: The sales volume and value in the table above is mainly based on sale of car built-up.

III. Human Resources

Year		2016	2017	March 31, 2018
Number of employees		4,370	4,095	4,131
Average Age (years)		39.44	40.35	40.58
Average Years of Service (years)		11.20	11.61	11.56
Education	Ph.D.	9	9	8
	Master's	588	569	569
	Bachelor's or Other higher education	1,613	1,513	1,512
	High School	1,517	1,458	1,463
	Junior High School or Less	643	546	579

Note: The table above is base on consolidated information.

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IV. Environmental Cost

(I) Losses and Fines Caused by Environmental Pollution during the 2017 Calendar Year and up to March 31, 2018: None

(II) Forecast of Environmental Protection Expenses for Next Three Years

Unit: NT\$ thousands

Year Item	2018		2019		2020	
	Environmental Protection Expenses	Amount	Environmental Protection Expenses	Amount	Environmental Protection Expenses	Amount
Proposed Purchase of Pollution Prevention Equipment or Content of Expenses	(1) Waste water and polluted air running costs	86,483	(1) Waste water and polluted air running costs	100,084	(1) Waste water and polluted air running costs	64,224
	(2) Pollution inspection fees	6,002	(2) Pollution inspection fees	5,994	(2) Pollution inspection fees	7,634
Expected Improvement	Comply with the (1) Air Pollution Control Act, (2) Water Pollution Control Act, (3) Waste Disposal Act, and (4) Toxic Chemical Substances Control Act.					

V. Labor and Management Relationship

(I) Employee's Benefits, Training, Retirement Measures and Implementation

1. Employee Benefits Programs

- (1) Providing uniforms, shuttle buses and transport vehicles to return home during consecutive holidays.
- (2) Providing full equipped dormitories, activity centers, training centers, restaurants and nurseries.
- (3) Holding activities such as domestic and foreign travel, year-end dinner and raffles drawing.
- (4) Sponsoring worker social group activities.
- (5) Providing free group term insurance, accident insurance, and regular general health checks.
- (6) Providing hospitalization condolences, sympathy and mutual aid pro mourning, and dependents entitled to hospitalization benefits.
- (7) Providing gifts for the three major Chinese holidays, birthdays, wedding, child birth, pregnancy and retirement.
- (8) Providing scholarships for employees and their children, emergency loans and aids.
- (9) Signing agreements with excellent domestic stores to become "Special Arrangement Stores" to provide employees with diversified information for purchasing and selection.
- (10) Providing discounts to purchase the Corporation's vehicles.

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2. People Development

- (1) The Corporation's human resources development integrates the double objectives of "Corporate Development" and "Employee Satisfaction." These objectives are for nurturing professionals, developing personal potential and building a learning organization so that the growth of the Corporation and colleagues are combined with each other.
- (2) To implement the people development vision, the Corporation's human resource development system is divided into "In-house Training", "External Education and Training," "Overseas Training", "On the Job Training" and "Validation Personnel Training." These provide a series of core skill, management skill and professional skill courses and convenient real-time online learning system. These allow the tight integration of employee personal development and work assignments.

A. In-house Training consists of five categories:

- a. Core work skill training
- b. Management skill training
- c. Professional skill training
- d. New staff training
- e. Project training

B. External Education and Training:

To carry out the Corporation's educational training, each unit can apply to send employees based on needs to attend educational training courses held outside the Corporation in addition to attending regularly scheduled in-house training. In addition, the application to attend external educational training shall be reviewed and approved by educational and training unit for recommendation on whether to attend or not.

C. Overseas Training:

Each department can send its staff members to attend overseas training programs held by external institutions based on actual work needs or develop its overseas training plan to send the appropriate staff member. After approval, staff members are then sent abroad for overseas training while providing managerial staff from the mainland China's joint ventures to receive project training in Taiwan.

D. On the Job Training (OJT):

Using methods such as delegated work, work instructions, project implementation, and so forth, managers at all levels shall develop abilities of the team members based on the individual ability and work nature of the team member.

E. Validation Personnel Training:

Implement the training of inspection, testing, monitoring, and so forth of processes or product designs, manufacture, installation, services and environmental management of each unit shall be done. The training and qualification certification of internal auditors, environmental management, and occupational safety staff members are held.

3. Retirement

(1) The retirement of workers shall be conducted according to the following stipulations:

- A. The Corporation has a retirement plan for formally hired employees. Retirement pensions are set aside into the retirement reserve fund and managed by the Corporation's Labor Pension Fund Supervisory Committee and deposited into Bank of Taiwan on behalf of the committee.
- B. Pension can be claimed only for those conforming to the requirements of Labor Standards Act upon retirement for those who select to retire according to the regulations of the Labor Standards Act.
- C. For those who select the Labor Pension Act, the Corporation shall set aside funds monthly based on the employees' wages. In addition, the working years prior to selecting the Labor Pension Act shall be retained until the time conforming to the stipulations of retirement according to the Labor Pension Act. Only upon retirement shall the pension be claimed.
- D. The Labor Pension Act is applicable to all employees (including those re-employed after leaving the Corporation) that reported to duty after July 1, 2005.

(2) The standard for retirement is based on the following stipulations:

- A. For employees satisfying any of the conditions listed below, they can apply for voluntary retirement.
 - a. For those who have worked in the Corporation for fifteen years and aged fifty-five or above.
 - b. For those who have worked in the Corporation for twenty-five years.
 - c. For those who have worked in the Corporation for ten years and aged sixty or above.
- B. The Corporation shall not implement compulsory retirement unless one of the following conditions applies:
 - a. For those aged sixty-five or above.
 - b. For those unable to fulfill their duties at work due to insanity or physical disability.

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- (3) The calculation for the amount of pension given is based on the following criteria for those where Labor Standards Act apply:
 - A. Based on years worked, each full year worked shall receive two basis points. However, for those with years work exceeding fifteen years, each full year worked shall receive one basis point with the highest total of forty-five points as the upper limit. For those who have worked less than half a year, the basis used is one-half year. Those who have worked half a year or more shall be calculated based on one full year.
 - B. For employees who become insane or physically disabled while performing work duties, an additional twenty percent or five basis points (which ever one is more) shall be added in addition to those stipulated by the previous article.
 - C. The standard of pension basis point refers to the monthly average age at the time of retirement.

4. Labor and Management Agreement

- (1) The Corporation philosophy is based on coexistence and common prosperity through the spirit of working together cooperatively and harmoniously to seek the maximum well-being for all.
- (2) The establishing of year-end bonuses and profit-sharing system match the interests of employees in conjunction with the Corporation's interests and create outstanding employee performance in the process.
- (3) Regular labor and management meetings are held to ensure smooth communication channels and promote labor and management harmony.

5. Implementation of Measures Protecting Employee Rights

- (1) Promoting employee assistance programs, maintaining health of employees in terms of physical and social functions, providing psychological and legal consultations and counseling, and establishing comprehensive, holistic care counseling system.
- (2) Conducting management skill training and implementing counseling skills in day to day management.
- (3) Promoting mutely-channel communication concepts, encouraging participating in management, developing team consensus.
- (4) Being open and public about management and operating conditions, increasing solidarity and sense of crisis among employees.

- (5) Emphasizing worker issues, establishing sound labor unions and ensuring employee rights.
- (6) Holding labor and management meetings regularly to coordinate labor and management relations.

6. Protective Measures for Work Environment and Employee Safety

Workplace safety of the employees is of vital importance to us. We have complied with applicable laws and regulations and received the certifications of OHSAS 18001 and CNS 15506 (TOSHMS) regarding occupational safety and health management systems (see our website for the certificates). We identify potential hazards in all kinds of areas, including cutting, entanglement, electrification, falling, fire, explosion, falling objects, poisoning and asphyxiation. We conduct risk assessment and introduce hazard prevention measures and management regulations, with the aim to protect the safety and health of our employees and stakeholders. At the same time, we continue to improve the risks of hazards regarding personnel, equipment and environment through the functions of the occupational safety and health management system.

- (1) Work Environment: The Corporation provides a good work environment to employees in the following specific ways:
 - A. Planting large amount of plants in the factory's empty spaces to beautify the environment. In addition, themes are planned according to the four seasons for the flower section and seasonal flowers.
 - B. Setting up rest areas as QCC garden, coffee shops, and so forth.
 - C. Banning cigarette smoking in all workplace and restaurants, so that cigarette smoking can only be in designated areas.
 - D. Setting up dedicated walkways for dining and commuting, ensuring proper separation of people and vehicle lanes.
 - E. Establishing widely turbine exhausts and local exhausts in the factory area to ensure the air quality.
 - F. Introduction and improvement of intrinsic safety design of equipment.
 - G. Setting up air conditioner in the painting field operation area to raise comfort level.
 - H. Measuring the operating environment focusing on the monitoring and improvement of operational areas for the plant dust, noise, organic solvents and so forth semiannually.
- (2) Protecting of Employee Safety
 - A. Introducing occupational safety and health management system and improving health and safety management performance.

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- B. Formulating labor safety and health management programs to implement and ensure the safety and health of the employees.
- C. Environmental health and safety meetings are held regularly. In addition, tracking safety and health performance indicators are to be done to reach state to strengthen the implementation of safety and health policy.
- D. Implanting concepts of predetermined danger and risk management into the minds of employees and families. To continue promoting residential safety and fire escape, to implement fire escape training in offices, factories and dormitories, to promote the prevention of carbon monoxide poisoning and traffic safety, on site safety observations, cases of other factory occupational hazards, and so forth.
- E. Implementing regular health checks for employees. For those with abnormalities, requesting periodic follow-up and tracking or treatment is done in addition to health education to ensure the physical health of employees.

7. Code of Ethics and Business Conduct

- (1) Code of Conduct: The Corporation employees' code of conduct is "Honesty, Caring, and Responsibility."
 - (2) Code of Ethics: The Corporation work rules have a chapter dedicated to "Service Ethics." The chapter includes explicit specifications regarding working attitude, strict keeping of confidentiality, requirements regarding using public properties, no bribery or improper benefits allowed, and so forth.
 - (3) Learning Code of Conduct and Code of Ethics are the keypoints of new employee training.
- (II) Dispute between Labor and Management during the 2017 Calendar Year and up to March 31, 2018: The Corporation has had no labor disputes in 2017 and as of March 31, 2018. In the future, this philosophy will be used to promote labor and management harmony. Therefore, the prediction is that there will not be any labor disputes or losses from it.

Operational Highlights

VI. Major Contracts

Contract Nature	Interested Party	Contract Term	Content	Restrictions
Licensing and technology cooperation	Mitsubishi Motors Corporation	July 1, 2005 to September 7, 2025.	The Corporation is licensed to manufacture and sell parts, components, and vehicles designed by Mitsubishi Motors based on the design, drawings, and technical specifications provided by Mitsubishi Motors. Mitsubishi Motors should send staff to provide necessary technical assistance in manufacture for the Corporation at any time at the request of the Corporation.	The Corporation should not assign or re-license the rights and licenses granted by Mitsubishi Motors to a third party without prior permission of Mitsubishi Motors.
Agreement for parts supply and sales of completed vehicles	Daimler Trucks Asia Taiwan Ltd.	January 1, 2017 to December 31, 2021	1.CMC supplies vehicles bearing the FUSO brand and locally manufactured parts to Daimler Trucks Asia Taiwan Ltd. (DTAT). 2.DTAT shall supply imported parts to CMC.	Unless provided with a written consent from the other party, the relevant rights and obligations shall not be transferred to any third party
Distribution contract	Fortune Motors Co., Ltd.	August 1, 2014 to July 31, 2018	Distribution of sedans, RVs, vans, and trucks under 3.5t (exclusive).	Territory: Taiwan and Fujian areas under the ROC jurisdiction.
Distribution contract	Shung Ye Motor	December 30, 2017 to December 29, 2020	Distribution of sedans, RVs, and vans under 3.5t (exclusive).	Territory: Taiwan and Fujian areas under the ROC jurisdiction.
Shareholders Agreement	Daimler AG	Since November 4, 2004.	Established and managed Fujian Daimler Automotive Co., Ltd. (now Fujian Benz Automotive Co., Ltd.), a joint venture established among CMC, Daimler AG, and Fujian Motor, to manufacture medium and light sedans at 2-6t.	Except for models licensed by Mitsubishi Motors or Daimler AG or independently developed models, the Corporation should not develop, manufacture, and distribute models competitive with models manufactured and distributed by Fujian Benz Automotive Co., Ltd. in China.

Financial Highlights

I. Condensed Balance Sheet and Statement of Comprehensive Income over the Last Five Years

(I) Condensed Balance Sheet and Statement of Comprehensive Income

1. Condensed Balance Sheet

(1) Consolidated Financial Report

Unit: NT\$ thousands

Year		Financial Data Last Five Years				
		2017 (Note 1)	2016	2015	2014 (Note 2)	2013
Item						
Current assets		24,571,917	24,001,876	23,381,141	22,939,000	23,879,163
Long-term Investments		30,156,745	29,528,944	30,441,435	29,743,458	27,698,817
Property, Plant, & Equipment		6,543,043	6,432,443	6,543,123	6,490,732	5,952,588
Intangible Assets		154,628	142,571	208,051	245,859	188,472
Other Assets		2,102,593	2,073,639	2,108,281	2,104,369	2,341,370
Total Assets		63,528,926	62,179,473	62,682,031	61,523,418	60,060,410
Current Liabilities	Before Distribution	7,787,062	7,877,685	7,694,923	7,856,941	8,393,456
	After Distribution	7,787,062	10,092,166	9,770,999	9,448,599	9,915,912
Non-current Liabilities		1,284,902	1,580,426	2,327,897	2,267,307	2,228,053
Total Liabilities	Before Distribution	9,071,964	9,458,111	10,022,820	10,124,248	10,621,509
	After Distribution	9,071,964	11,672,592	12,098,896	11,715,906	12,143,965
Equity Attributable to owners of the Corporation		50,950,021	49,421,655	49,515,345	48,441,258	46,725,127
Capital Stock		13,840,508	13,840,508	13,840,508	13,840,508	13,840,508
Capital Surplus		6,407,340	6,407,220	6,404,906	6,392,369	6,376,868
Retained Earnings	Before Distribution	30,434,088	28,619,636	27,800,054	26,422,019	25,516,688
	After Distribution	30,434,088	26,405,155	25,723,978	24,830,361	23,994,232
Other Equity		268,085	554,291	1,469,877	1,786,362	991,063
Treasury stock		-	-	-	-	-
Non-controlling Interests		3,506,941	3,299,707	3,143,866	2,957,912	2,713,774
Total Equity	Before Distribution	54,456,962	52,721,362	52,659,211	51,399,170	49,438,901
	After Distribution	54,456,962	50,506,881	50,583,135	49,807,512	47,916,445

Note 1: Because the 2018 shareholders' meeting is not held yet, the earnings distribution is not yet finalized. Therefore, the earnings before and after distribution are the same.

Note 2: Disclosures are in accordance with the revised Statement.

Financial Highlights

(2) Unconsolidated Financial Report

Unit: NT\$ thousands

Year		Financial Data Last Five Years				
		2017 (Note1)	2016	2015 (Note2)	2014 (Note2)	2013
Current assets		18,199,258	17,695,756	17,273,150	16,872,698	16,865,341
Long-term Investments		33,640,632	33,011,238	33,972,084	33,399,414	32,055,302
Property, Plant, & Equipment		3,654,637	3,471,752	3,502,485	3,370,510	2,920,646
Intangible Assets		154,628	142,571	180,379	218,187	160,800
Other Assets		1,204,990	1,251,585	1,329,847	1,314,492	1,362,665
Total Assets		56,854,145	55,572,902	56,257,945	55,175,301	53,364,754
Current Liabilities	Before Distribution	4,969,538	5,014,126	4,909,518	4,971,795	4,891,727
	After Distribution	4,969,538	7,228,607	6,985,594	6,563,453	6,414,183
Non-current Liabilities		934,586	1,137,121	1,833,082	1,762,248	1,747,900
Total Liabilities	Before Distribution	5,904,124	6,151,247	6,742,600	6,734,043	6,639,627
	After Distribution	5,904,124	8,365,728	8,818,676	8,325,701	8,162,083
Capital Stock		13,840,508	13,840,508	13,840,508	13,840,508	13,840,508
Capital Surplus		6,407,340	6,407,220	6,404,906	6,392,369	6,376,868
Retained Earnings	Before Distribution	30,434,088	28,619,636	27,800,054	26,422,019	25,516,688
	After Distribution	30,434,088	26,405,155	25,723,978	24,830,361	23,994,232
Other Equity		268,085	554,291	1,469,877	1,786,362	991,063
Treasury stock		-	-	-	-	-
Total Equity	Before Distribution	50,950,021	49,421,655	49,515,345	48,441,258	46,725,127
	After Distribution	50,950,021	47,207,174	47,439,269	46,849,600	45,202,671

Note1: Because the 2018 shareholders' meeting is not held yet, the earnings distribution is not yet finalized. Therefore, the earnings before and after distribution are the same.

Note2: Disclosures are in accordance with the revised Statement.

Financial Highlights

2. Statement of Comprehensive Income

(1) Consolidated Financial Reports

Unit: NT\$ thousands (except EPS, NT\$)

Item \ Year	Financial Data for Last Five Years				
	2017	2016	2015	2014(Note1)	2013
Operating Revenue	38,908,093	40,584,424	36,884,447	35,951,427	35,539,825
Realized Gross Profit	6,521,213	7,172,452	6,713,127	6,062,064	5,182,483
Profit from Operations	2,434,560	2,591,893	2,215,415	1,969,934	1,380,509
Non-operating income and expenses	2,441,447	1,493,659	1,675,814	1,269,735	1,685,439
Profit Before Income Tax	4,876,007	4,085,552	3,891,229	3,239,669	3,065,948
Net Profit from continuing operations after income taxes	4,537,351	3,592,360	3,504,688	2,821,482	2,751,022
Net Profit from discontinued operations (Note2)	2,839	5,012	-	-	-
Net Profit (losses)	4,540,190	3,597,372	3,504,688	2,821,482	2,751,022
Other Comprehensive income (Loss) (after-tax)	(389,392)	(1,370,347)	(544,138)	732,458	1,916,382
Total Comprehensive income	4,150,798	2,227,025	2,960,550	3,553,940	4,667,404
Net profit attributable to owners of the Corporation	4,105,643	3,189,100	3,166,104	2,558,118	2,531,878
Net profit attributable to non-controlling interests	434,547	408,272	338,584	263,364	219,144
Total Comprehensive income attributable to owners of the Corporation	3,743,553	1,993,759	2,667,467	3,223,837	4,368,486
Total Comprehensive income attributable to non-controlling interests	407,245	233,266	293,083	330,103	298,918
Earnings per share (NT\$)	3.01	2.34	2.32	1.88	1.86

Note1: Disclosures are in accordance with the revised Statement.

Note2: Net Profit from discontinued operations is net after tax.

Financial Highlights

(2) Unconsolidated Financial Report

Unit: NT\$ thousands (except EPS, NT\$)

Item \ Year	Financial Data for Last Five Years				
	2017	2016	2015(Note)	2014(Note)	2013
Operating Revenue	30,234,697	30,577,106	28,447,231	28,272,683	27,562,088
Gross Profit	4,606,119	5,128,358	4,874,165	4,550,959	3,807,173
Profit from Operations	2,064,434	2,263,593	2,002,384	1,971,191	1,705,072
Non-operating income and expenses	2,275,209	1,264,507	1,454,043	925,927	1,045,806
Profit Before Income Tax	4,339,643	3,528,100	3,456,427	2,897,118	2,750,878
Net Profit from continuing operations After Income Taxes	4,105,643	3,189,100	3,166,104	2,558,118	2,531,878
Net Profit from discontinued operations	-	-	-	-	-
Net Pfofit (losses)	4,105,643	3,189,100	3,166,104	2,558,118	2,531,878
Other Comprehensive income(after-tax)	(362,090)	(1,195,341)	(498,637)	665,719	1,836,608
Total Comprehensive income	3,743,553	1,993,759	2,667,467	3,223,837	4,368,486
Earnings per share (NT\$)	3.01	2.34	2.32	1.88	1.86

Note: Disclosures are in accordance with the revised Statement.

(II) Auditors' Opinions for the Last Five Years

Year	2017	2016	2015	2014	2013
CPA	Chih-Ming Shao Ya-Ling Wong (Note)	Chih-Ming Shao Shiow-Ming Shue	Chih-Ming Shao Shiow-Ming Shue	Chih-Ming Shao (Note) Shiow-Ming Shue	Denny Kuo Shiow-Ming Shue
Auditors' Opinion	An Unqualified Opinion with Other Matter Paragraph	An Unqualified Opinion with Other Matter Paragraph	A Modified Unqualified Opinion	A Modified Unqualified Opinion	A Modified Unqualified Opinion

Note: Because of internal relation within the CPA firm, the auditing CPA changed from Shiow-Ming Shue to Ya-Ling Wong in 2017. In addition, the auditing CPA changed from Denny Kuo to Chih-Ming Shao in 2014.

Financial Highlights

II. Financial Analysis over the Last Five Years

(I) Consolidated Financial Report

Item of Analysis		Year	Financial Analysis for the Last Five Years				
		2017	2016	2015	2014	2013	
Capital Structure Analysis (%)	Debt Ratio	14.28	15.21	15.99	16.45	17.68	
	Long-term Fund to Property, Plant, and Equipment Ratio	851.93	844.19	840.38	827.03	867.97	
Liquidity Analysis %	Current Ratio	315.55	304.68	303.85	292.47	284.50	
	Quick Ratio	232.23	228.50	217.58	207.99	199.40	
	Times Interest Earned (Times)	366.82	337.02	223.80	153.02	110.40	
Operating Performance Analysis (Times)	Average Collection Turnover	13.03	13.91	12.85	11.93	11.34	
	Days Sales Outstanding (Days)	28.01	26.24	28.40	30.60	32.19	
	Average Inventory Turnover	6.59	6.44	5.45	5.08	4.47	
	Average Payment Turnover	9.32	9.96	8.87	8.16	8.31	
	Average Inventory Turnover Days (Days)	55.38	56.67	66.97	71.85	81.66	
	Property, Plant, and Equipment Turnover	5.77	6.04	5.45	5.59	5.98	
	Total Assets Turnover	0.60	0.63	0.57	0.57	0.58	
Profitability Analysis (%)	Return on Total Assets	7.24	5.78	5.67	4.67	4.74	
	Return on Equity	8.47	6.83	6.74	5.60	5.76	
	Pre-tax Income to Paid in capital	35.23	29.57	28.11	23.41	22.15	
	Net Margin	12.13	9.17	9.86	8.12	8.04	
	Earnings per Share (NT\$)	3.01	2.34	2.32	1.88	1.86	
Cash Flow (%)	Cash Flow Ratio	22.28	41.31	38.48	47.78	33.69	
	Cash Flow Adequacy Ratio	92.85	87.44	N/A	N/A	N/A	
	Cash Flow Reinvestment Ratio	(0.58)	1.44	1.66	2.75	2.00	
Leverage	Operating Leverage	2.45	2.57	2.76	2.76	3.69	
	Financial Leverage	1.01	1.00	1.01	1.01	1.02	
1. "Profitability" increased in 2017 mainly because the Net Profit increased. 2. "Cash Flow Ratio" and "Cash Flow Reinvestment Ratio" decreased in 2017 mainly because the prepayment increases resulted in "Cash generated from operations" decreased.							

Financial Highlights

(II) Unconsolidated Financial Report

Item of Analysis		Year	Financial Analysis for the Last Five Years				
		2017	2016	2015 (Note)	2014	2013	
Capital Structure Analysis (%)	Debt Ratio	10.38	11.07	11.99	12.20	12.44	
	Long-term Fund to Property, Plant, and Equipment Ratio	1419.69	1456.29	1466.06	1489.51	1659.67	
Liquidity Analysis %	Current Ratio	366.22	352.92	351.83	339.37	344.77	
	Quick Ratio	279.87	264.56	260.41	248.08	252.19	
	Times Interest Earned (Times)	94341.07	54279.46	26385.94	32924.75	15994.48	
Operating Performance Analysis (Times)	Average Collection Turnover	17.46	18.24	17.44	17.56	16.94	
	Days Sales Outstanding (Days)	20.90	20.01	20.93	20.79	21.55	
	Average Inventory Turnover	6.94	6.49	5.85	5.77	4.92	
	Average Payment Turnover	9.73	9.95	9.17	8.81	8.77	
	Average Payment Turnover Days (Days)	52.59	56.24	62.39	63.26	74.19	
	Property, Plant, and Equipment Turnover	8.35	8.64	8.14	8.85	10.09	
	Total Assets Turnover	0.53	0.54	0.50	0.51	0.52	
Profitability Analysis (%)	Return on Total Assets	7.30	5.70	5.68	4.71	4.86	
	Return on Equity	8.18	6.45	6.46	5.38	5.61	
	Pre-tax Income As Ratio of Paid in capital	31.35	25.49	24.97	20.93	19.88	
	Net Margin	13.80	10.58	11.32	9.19	9.34	
	Earnings per Share (NT\$)	3.01	2.34	2.32	1.88	1.86	
Cash Flow (%)	Cash Flow Ratio	44.17	38.10	56.10	48.57	62.09	
	Cash Flow Adequacy Ratio	82.94	70.23	N/A	N/A	N/A	
	Cash Flow Reinvestment Ratio	(0.03)	(0.22)	1.56	1.22	2.50	
Leverage	Operating Leverage	2.80	2.45	2.93	2.56	3.55	
	Financial Leverage	1.00	1.00	1.00	1.00	1.00	
1. "Times Interest Earned" increased in 2017 mainly because the Net Profit increased and Interest Expenses decreased. 2. "Profitability" increased in 2017 mainly because the Net Profit increased. 3. "Cash Flow Reinvestment Ratio" decreased in 2017 mainly because the prepayment increases resulted in "Cash generated from operations" decreased.							

Note: Disclosures are in accordance with the revised Statement.

Financial Highlights

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-term Fund to Fixed Assets Ratio = (Equity + Non-current Liabilities) / Net Property, Plant, & Equipment

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Days Sales Outstanding = 365 / Average Collection Turnover
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Payment Turnover = Cost of Sales / Average Trade Payables
- (5) Average Inventory Turnover Days = 365 / Average Inventory Turnover
- (6) Property, Plant, & Equipment Turnover = Net Sales / Net Property, Plant, & Equipment
- (7) Total Assets Turnover = Net Sales / Total Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Profit + Interest Expenses * (1 - Effective tax rate)) / Average Total Assets
- (2) Return on Equity = Net Profit / Average Equity
- (3) Net Margin = Net Profit / Net Sales
- (4) Earnings per Share = (Net Profit - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Generated from Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant, & Equipment + Long-term Investments + Other Non-current Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost of goods sold) / Profit from Operations
- (2) Financial Leverage = Profit from Operations / (Profit from Operations - Interest Expenses)

Financial Highlights

III. Audit Committee's Review Report

The Company the 2017 Financial Statements and the Consolidated Financial Report which were audited by Chih-Ming Shao and Ya-Ling Wong of Deloitte & Touche. The Annual Report and Earnings Distribution proposal have been reviewed by the Audit Committee members of the Company and determined to be correct and accurate. This is hereby reported in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

Please verify the audit and review results.

To The 2018 Annual Shareholders' Meeting

China Motor Corporation

Chairman of Audit Committee:
Chen-Chi Hsiao

Handwritten signature of Chen-Chi Hsiao in black ink, consisting of three characters: 簡, 珍, 琪.

Date: March 26, 2018

Financial Highlights

IV. Consolidated Financial Statements and Appendix

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
China Motor Corporation

Opinion

We have audited the accompanying consolidated financial statements of China Motor Corporation and its subsidiaries (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 reports of other auditors (refer to Other Matter section), 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 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 is sufficient and appropriate to provide a basis for our opinion based on our audits and the reports of other auditors.

Key Audit Matters

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

Financial Highlights

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

Evaluation of Write-down of Inventory

Inventories of the Group are stated at the lower of cost or net realizable value. The estimation of the net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Since rapid changes in market conditions may have a material impact on the result of such evaluation which could thus lead to the risk of inventory being inactive or obsolete, the evaluation of the write-off of inventory has been identified as a key audit matter.

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

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

Revenue Recognition

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

Our audit procedures in respect of revenue recognition included:

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

Other Matter

We did not audit the financial statements as of and for the years ended December 31, 2017 and 2016 of Daimler Vans Hong Kong Ltd., Guangzhou NTN-Yulon Drivertrain Co., Ltd., Xiangyang NTN-Yulon Drivertrain Co., Ltd., Shung Ye Motors Corporation, Uni Auto Parts Manufacture Co., Ltd. and Southeast-Motor Co., Ltd. in which the Group had equity-method investments, but such financial statements were audited by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for these investees in the Group's consolidated financial statements, is based solely on the reports of the other auditors. The aforementioned equity-method investments were 10.5% (NT\$6,656,901 thousand) and 9.0% (NT\$5,618,921 thousand) of the Group's total assets as of December 31, 2017 and 2016, respectively. The Group's share of equity of the aforementioned equity-method investments amounted to NT\$1,216,697 thousand in comprehensive income and NT\$310,008 thousand in comprehensive income for the years ended December 31, 2017 and 2016, respectively, which amounted to 29.3% and 13.9% of the Group's total equity, respectively.

We have also audited the parent company only financial statements of China Motor Corporation as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion with other matter section.

Financial Highlights

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 Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing 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 members of the Audit Committee) 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.

Financial Highlights

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 group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2018



Notice to Readers

The accompanying 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.

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 13,816,041	22	\$ 14,231,759	23
Financial assets at fair value through profit or loss (Notes 4 and 7)	529,496	1	15,853	-
Available-for-sale financial assets (Notes 4 and 8)	-	-	731,135	1
Debt investments with no active market (Notes 4 and 15)	744,052	1	62,162	-
Notes receivable, net (Notes 4 and 10)	23,799	-	104,586	-
Accounts receivable, net (Notes 4 and 10)	1,161,493	2	1,169,831	2
Trade receivables from related parties (Notes 4 and 29)	1,703,903	3	1,577,844	3
Other receivables (Note 4)	105,184	-	107,587	-
Inventories (Notes 4, 5 and 12)	4,464,469	7	5,048,320	8
Prepayments (Note 29)	1,506,007	2	615,989	1
Other current assets (Notes 4, 9, 24 and 30)	517,473	1	336,810	1
Total current assets	<u>24,571,917</u>	<u>39</u>	<u>24,001,876</u>	<u>39</u>
NON-CURRENT ASSETS				
Available-for-sale financial assets (Notes 4 and 8)	726,472	1	844,812	1
Financial assets measured at cost (Notes 4 and 14)	194,860	-	267,047	1
Debt investments with no active market (Notes 4, 15 and 29)	1,534,751	2	1,846,292	3
Investments accounted for using the equity method (Notes 4 and 16)	27,700,662	44	26,570,793	43
Property, plant and equipment (Notes 4, 17, 29 and 30)	6,543,043	10	6,432,443	10
Investment properties (Notes 4, 18 and 30)	1,395,488	2	1,411,013	2
Intangible assets under development (Note 4)	154,628	-	142,571	-
Deferred tax assets (Notes 4 and 24)	417,001	1	398,231	1
Other non-current assets	290,104	1	264,395	-
Total non-current assets	<u>38,957,009</u>	<u>61</u>	<u>38,177,597</u>	<u>61</u>
TOTAL	<u>\$ 63,528,926</u>	<u>100</u>	<u>\$ 62,179,473</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 19 and 30)	\$ 745,000	1	\$ 768,000	1
Short-term bills payable	109,933	-	89,977	-
Notes and accounts payable	2,555,888	4	2,478,679	4
Trade payables to related parties (Note 29)	886,390	1	807,997	1
Other payables (Note 20)	2,871,988	5	3,127,812	5
Current tax liabilities (Notes 4 and 24)	328,393	1	214,133	1
Other current liabilities (Notes 4, 7, 9 and 29)	289,470	-	391,087	1
Total current liabilities	<u>7,787,062</u>	<u>12</u>	<u>7,877,685</u>	<u>13</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 24)	114,554	-	181,932	-
Net defined benefit liabilities (Notes 4 and 21)	1,140,697	2	1,371,926	2
Other non-current liabilities	29,651	-	26,568	-
Total non-current liabilities	<u>1,284,902</u>	<u>2</u>	<u>1,580,426</u>	<u>2</u>
Total liabilities	<u>9,071,964</u>	<u>14</u>	<u>9,458,111</u>	<u>15</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 22)				
Ordinary shares	13,840,508	22	13,840,508	22
Capital surplus	6,407,340	10	6,407,220	11
Retained earnings				
Legal reserve	8,487,293	13	8,168,383	13
Special reserve	1,051,658	2	1,051,658	2
Unappropriated earnings	20,895,137	33	19,399,595	31
Total retained earnings	<u>30,434,088</u>	<u>48</u>	<u>28,619,636</u>	<u>46</u>
Other equity				
Exchange differences on translating foreign operations	(485,118)	(1)	(268,058)	-
Unrealized gain on available-for-sale financial assets	765,456	1	850,984	1
Total loss on effective portion of cash flow hedges (Notes 6 and 9)	(12,253)	-	(28,635)	-
Total other equity	<u>268,085</u>	<u>-</u>	<u>554,291</u>	<u>1</u>
Total equity attributable to owners of the Corporation	50,950,021	80	49,421,655	80
NON-CONTROLLING INTERESTS	<u>3,506,941</u>	<u>6</u>	<u>3,299,707</u>	<u>5</u>
Total equity	<u>54,456,962</u>	<u>86</u>	<u>52,721,362</u>	<u>85</u>
TOTAL	<u>\$ 63,528,926</u>	<u>100</u>	<u>\$ 62,179,473</u>	<u>100</u>

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

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

Financial Highlights

CHINA MOTOR CORPORATION 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 REVENUE (Notes 4 and 29)				
Net sales	\$ 37,419,056	96	\$ 39,066,422	96
Other operating revenue	<u>1,489,037</u>	<u>4</u>	<u>1,518,002</u>	<u>4</u>
Total operating revenue	<u>38,908,093</u>	<u>100</u>	<u>40,584,424</u>	<u>100</u>
OPERATING COSTS (Notes 9, 12, 21, 23 and 29)				
Cost of goods sold	31,358,370	80	32,354,774	80
Other operating costs	<u>1,038,443</u>	<u>3</u>	<u>1,048,918</u>	<u>3</u>
Total operating costs	<u>32,396,813</u>	<u>83</u>	<u>33,403,692</u>	<u>83</u>
GROSS PROFIT	6,511,280	17	7,180,732	17
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>9,933</u>	<u>-</u>	<u>(8,280)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>6,521,213</u>	<u>17</u>	<u>7,172,452</u>	<u>17</u>
OPERATING EXPENSES (Notes 21, 23 and 29)				
Selling and marketing expenses	904,794	3	744,215	2
General and administrative expenses	1,154,064	3	1,123,397	3
Research and development expenses	<u>2,027,795</u>	<u>5</u>	<u>2,712,947</u>	<u>6</u>
Total operating expenses	<u>4,086,653</u>	<u>11</u>	<u>4,580,559</u>	<u>11</u>
PROFIT FROM OPERATIONS	<u>2,434,560</u>	<u>6</u>	<u>2,591,893</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES				
Share of profit of associates and joint ventures accounted for using the equity method (Notes 4 and 16)	2,133,611	5	1,420,751	4
Interest income (Note 4)	198,151	1	216,784	1
Dividend income (Note 4)	40,525	-	42,186	-
Other income	101,934	-	53,125	-
Gain on disposal of investments (Notes 4, 14 and 26)	194,162	1	43,120	-
Gain on financial instruments at fair value through profit or loss (Note 4)	-	-	5,948	-
Interest expense	(13,329)	-	(12,179)	-
Other expenses (Notes 12 and 17)	(14,766)	-	(13,747)	-
Foreign exchange losses	(108,800)	-	(223,080)	(1)

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION 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	%
Loss on financial instrument at fair value through profit or loss (Note 4)	\$ (6,109)	-	\$ -	-
Impairment loss (Notes 4, 14 and 17)	<u>(83,932)</u>	<u>-</u>	<u>(39,249)</u>	<u>-</u>
Total non-operating income	<u>2,441,447</u>	<u>7</u>	<u>1,493,659</u>	<u>4</u>
PROFIT BEFORE INCOME TAX	4,876,007	13	4,085,552	10
INCOME TAX EXPENSE (Notes 4 and 24)	<u>338,656</u>	<u>1</u>	<u>493,192</u>	<u>1</u>
NET PROFIT FROM CONTINUING OPERATIONS	4,537,351	12	3,592,360	9
NET PROFIT FROM DISCONTINUED OPERATIONS (Note 13)	<u>2,839</u>	<u>-</u>	<u>5,012</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>4,540,190</u>	<u>12</u>	<u>3,597,372</u>	<u>9</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 21)	(31,460)	-	(214,632)	(1)
Share of other comprehensive loss of associates (Note 16)	(52,796)	-	(106,356)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 24)	5,348	-	36,462	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 22)	(25,165)	-	(156,308)	(1)
Unrealized loss on available-for-sale financial assets (Note 22)	(120,588)	-	(54,531)	-
Total gains (losses) on effective portion of cash flow hedges (Note 22)	20,084	-	(36,190)	-

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION 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	%
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 16 and 22)	\$ (181,113)	(1)	\$ (844,945)	(2)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 22 and 24)	<u>(3,702)</u>	-	<u>6,153</u>	-
Other comprehensive loss for the year, net of income tax	<u>(389,392)</u>	<u>(1)</u>	<u>(1,370,347)</u>	<u>(4)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,150,798</u>	<u>11</u>	<u>\$ 2,227,025</u>	<u>5</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 4,105,643	11	\$ 3,189,100	8
Non-controlling interests	<u>434,547</u>	<u>1</u>	<u>408,272</u>	<u>1</u>
	<u>\$ 4,540,190</u>	<u>12</u>	<u>\$ 3,597,372</u>	<u>9</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 3,743,553	10	\$ 1,993,759	5
Non-controlling interests	<u>407,245</u>	<u>1</u>	<u>233,266</u>	-
	<u>\$ 4,150,798</u>	<u>11</u>	<u>\$ 2,227,025</u>	<u>5</u>
EARNINGS PER SHARE (Note 25)				
From continuing and discontinued operations				
Basic	<u>\$ 3.01</u>		<u>\$ 2.34</u>	
Diluted	<u>\$ 3.01</u>		<u>\$ 2.34</u>	
From continuing operations				
Basic	<u>\$ 3.01</u>		<u>\$ 2.34</u>	
Diluted	<u>\$ 3.01</u>		<u>\$ 2.34</u>	

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

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

(Concluded)

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Corporation											
	Ordinary Shares		Retained Earnings			Other Equity		Total			Non-controlling Interests	Total Equity
	Shares (In Thousands)	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total Gain (Loss) on Effective Portion of Cash Flow Hedges			
BALANCE AT JANUARY 1, 2016	1,384,051	\$ 13,840,508	\$ 6,404,906	\$ 7,851,773	\$ 1,051,673	\$ 18,896,608	\$ 571,137	\$ 897,338	\$ 1,402	\$ 49,515,345	\$ 3,143,866	\$ 52,659,211
Appropriation of the 2015 earnings	-	-	-	316,610	-	(316,610)	-	-	-	-	-	-
Cash dividends distributed by the Corporation - NT\$1.5 per share	-	-	-	-	(2,076,076)	(2,076,076)	-	-	-	(2,076,076)	-	(2,076,076)
Reversal of special reserve	-	-	-	-	(15)	15	-	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(77,425)	(77,425)
Changes in investments in associates and joint ventures accounted for using the equity method	-	-	2,314	-	-	(13,687)	-	-	-	(11,373)	-	(11,373)
Net profit for the year ended December 31, 2016	-	-	-	-	-	3,189,100	-	-	-	3,189,100	408,272	3,597,372
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(279,755)	(839,192)	(46,354)	(30,037)	(1,195,341)	(175,006)	(1,370,347)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	2,909,345	(839,192)	(46,354)	(30,037)	1,993,759	233,266	2,227,025
BALANCE AT DECEMBER 31, 2016	1,384,051	\$ 13,840,508	\$ 6,407,220	\$ 8,168,383	\$ 1,051,658	\$ 19,399,595	(268,058)	\$ 850,984	(28,635)	\$ 49,421,655	\$ 3,299,707	\$ 52,721,362
Appropriation of the 2016 earnings	-	-	-	318,910	-	(318,910)	-	-	-	-	-	-
Cash dividends distributed by the Corporation - NT\$1.6 per share	-	-	-	-	(2,214,481)	(2,214,481)	-	-	-	(2,214,481)	-	(2,214,481)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	(174,259)	(174,259)
Changes in investments in associates and joint ventures accounted for using the equity method	-	-	120	-	-	(826)	-	-	-	(706)	-	(706)
Disposal of subsidiaries	-	-	-	-	-	-	(217,060)	-	-	-	(25,752)	(25,752)
Net profit for the year ended December 31, 2017	-	-	-	-	-	4,105,643	-	-	-	4,105,643	434,547	4,540,190
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(75,884)	(217,060)	(85,528)	16,382	(362,090)	(27,302)	(389,392)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	4,029,759	(217,060)	(85,528)	16,382	3,743,553	407,245	4,150,798
BALANCE AT DECEMBER 31, 2017	1,384,051	\$ 13,840,508	\$ 6,407,340	\$ 8,487,293	\$ 1,051,658	\$ 20,895,137	(485,118)	\$ 765,456	(12,253)	\$ 50,950,021	\$ 3,506,941	\$ 54,456,962

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

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

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	\$ 4,876,007	\$ 4,085,552
Income before income tax from discontinued operations	<u>2,662</u>	<u>6,777</u>
Income before income tax	4,878,669	4,092,329
Adjustments for:		
Depreciation expenses	940,169	881,684
Amortization expenses	119,118	110,003
Net loss (gain) on fair value change of financial instruments at fair value through profit or loss	6,109	(5,948)
Interest expense	13,329	12,179
Interest income	(198,363)	(216,784)
Dividend income	(40,525)	(42,186)
Share of profit of associates and joint ventures accounted for using the equity method	(2,133,611)	(1,420,751)
Loss on disposal of property, plant and equipment	826	5,940
Loss (gain) on disposal of investments	(115,954)	1,414
Impairment loss on financial assets	21,616	7,359
Impairment loss on non-financial assets	62,316	31,890
Unrealized (realized) gain on the transactions with associates	(9,933)	8,280
Unrealized loss on foreign currency exchange, net	27,423	81,956
Loss on disposal of subsidiaries	2,179	-
Changes in operating assets and liabilities		
Financial assets held for trading	(516,798)	268,390
Notes receivable	80,599	53,766
Accounts receivable	(45,227)	(196,012)
Trade receivables from related parties	(127,448)	53,547
Other receivables	25,325	18,798
Inventories	582,031	(28,887)
Prepayments	(907,645)	359,793
Other current assets	(182,046)	277,019
Notes and accounts payable	78,841	(4,110)
Trade payables to related parties	66,991	74,054
Other payables	(237,478)	219,277
Other current liabilities	(99,085)	(39,486)
Net defined benefit liabilities	<u>(262,689)</u>	<u>(1,020,370)</u>
Cash generated from operations	2,028,739	3,583,144
Income tax paid	<u>(293,946)</u>	<u>(328,851)</u>
Net cash generated from operating activities	<u>1,734,793</u>	<u>3,254,293</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in financial assets designated as at fair value through profit or loss upon initial recognition	-	61,392
Decrease in available-for-sale financial assets	728,887	7,853

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

	2017	2016
Acquisition of debt investments with no active market	\$ (1,843,867)	\$ (2,645,042)
Proceeds from the repayments of principal of debt investments with no active market	1,477,280	2,751,550
Acquisition of financial assets measured at cost	(1,137)	-
Proceeds from the disposal of financial assets measured at cost	86,832	16,300
Acquisition of investments accounted for using the equity method	(22,298)	(623)
Proceeds from the disposal of investments accounted for using the equity method	91,116	-
Disposal of subsidiaries	6,328	-
Acquisition of property, plant and equipment	(1,149,990)	(840,971)
Proceeds from the disposal of property, plant and equipment	45,579	30,718
Acquisition of intangible assets	(49,865)	-
Increase in other non-current assets	(108,329)	(150,967)
Interest received	173,687	216,822
Dividends received	<u>831,420</u>	<u>1,067,152</u>
Net cash generated from investing activities	<u>265,643</u>	<u>514,184</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	(23,000)	23,812
Increase (decrease) in short-term bills payable	20,580	(20,905)
Repayments of long-term borrowings	-	(16,364)
Increase in other non-current liabilities	3,083	1,321
Cash dividends paid	(2,214,481)	(2,076,076)
Interest paid	(12,784)	(11,082)
Decrease in non-controlling interests	<u>(174,259)</u>	<u>(77,425)</u>
Net cash used in financing activities	<u>(2,400,861)</u>	<u>(2,176,719)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(15,293)</u>	<u>(77,819)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(415,718)	1,513,939
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>14,231,759</u>	<u>12,717,820</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 13,816,041</u>	<u>\$ 14,231,759</u>

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

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

(Concluded)

CHINA MOTOR CORPORATION 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)

1. GENERAL INFORMATION

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Corporation and its subsidiaries, collectively referred to as the “Group”, were approved by the Corporation’s board of directors on March 26, 2018.

3. APPLICATION OF NEW AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the 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 is enhanced. Refer to Note 29 for the related disclosures.

Financial Highlights

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

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

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

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

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

- 1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

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

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

Financial Highlights

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

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

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

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

For purchased or originated credit-impaired financial assets, the 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. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

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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 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

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

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
<u>Impact on assets, liabilities and equity</u>			
Debt investments with no active market - current	\$ 744,052	\$ (744,052)	\$ -
Financial assets measured at amortized cost - current	-	743,778	743,778
Financial assets at fair value through profit or loss - non-current	-	767,761	767,761
Available-for-sale financial assets - non-current	726,472	(726,472)	-
Financial assets at fair value through other comprehensive income - non-current	-	315,600	315,600
Financial assets measured at cost - non-current	194,860	(194,860)	-
Debt investments with no active market - non-current	1,534,751	(1,534,751)	-
Financial assets measured at amortized cost - non-current	-	1,525,521	1,525,521
Investments accounted for using the equity method	<u>27,700,662</u>	<u>288,698</u>	<u>27,989,360</u>
Total effect on assets	<u>\$ 30,900,797</u>	<u>\$ 441,223</u>	<u>\$ 31,342,020</u>
Retained earnings	\$ 20,895,137	\$ 888,982	\$ 21,784,119
Other equity	765,456	(491,590)	273,866
Non-controlling interests	<u>3,506,941</u>	<u>43,831</u>	<u>3,550,772</u>
Total effect on equity	<u>\$ 25,167,534</u>	<u>\$ 441,223</u>	<u>\$ 25,608,757</u>

Hedge accounting

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

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

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

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

The 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 assesses the application of other standards and interpretations will have no material impact on the Group's financial position and financial performance.

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

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

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

Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.

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

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

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

IFRS 16 "Leases"

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

Under IFRS 16, if the 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 assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within financing activities.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

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

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

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

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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.

d. Basis of consolidation

1) Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

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 Corporation 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 Corporation.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Financial Highlights

2) Entities included in consolidated financial statements

Investor	Investee	Main Business	Combined Shareholding Ratio		Note
			December 31		
			2017	2016	
China-Motor Corporation (Parent)	Kian Shen Corporation (“Kian Shen”)	Production of frame of heavy duty car and mold	43.87	43.87	a)
	CMC Investment Co., Ltd. (“CMC Investment”)	Investment of production and service industries	-	-	d)
	Hwa Wei Holdings Corporation Ltd. (“Hwa Wei Holdings”)	Overseas investment of production and service industries	100.00	100.00	
	China Engine Corporation (“China Engine”)	Manufacture of automobile engine and parts	52.11	52.11	
	Sino Diamond Motors Corporation (“Sino Diamond Motors”)	Sales and providing after sales service of vehicle	100.00	100.00	
	Hwa Hann Corporation (“Hwa Hann”)	Sales of automobile parts	99.99	99.99	c)
	Alliance Investment & Management Co., Ltd. (“Alliance Investment & Management”)	Investment	100.00	100.00	
	Gatetech Technology Inc. (“Gatetech Technology”)	Aluminum-magnesium alloy casting industry	72.81	72.81	
	China Motor Investment Co., Ltd. (CMI)	Investment	100.00	100.00	
	Hwa Chung Motors Corporation (“Hwa Chung Motors”)	Sales of vehicle and parts	100.00	100.00	
Kian Shen	COC Tooling & Stamping Co., Ltd. (COC)	Production of mold, fixture and gauge of vehicle	49.76	49.76	b)
	Kian Shen Investment Co., Ltd. (“Kian Shen Investment”)	Overseas investment of production and service industries	43.87	43.87	a)
China Engine	Advance Power Machinery Co., Ltd. (“Advance Power Machinery”)	Manufacture of automobile engine and parts	52.11	52.11	
	Advance Power Investment Co., Ltd. (“Advance Power Investment”)	Investment and sales	52.11	52.11	
Sino Diamond Motors	Hwa-Yu Corporation Ltd. (“Hwa-Yu”)	Overseas investment of production and service industries	100.00	100.00	
	Brilliant Insight International Consultancy Service Co., Ltd. (“Brilliant Insight International”)	Consulting and service	100.00	100.00	
Gatetech Technology Alliance Investment & Management	Gatetech Holding Co., Ltd. (GH)	Investment	72.81	72.81	
	Greentrans Investment Co., Ltd. (“Greentrans Investment”)	Investment	100.00	100.00	
Hwa Chung Motors	Greentrans Corporation (“Greentrans”)	Sales of motorcycle and parts	100.00	100.00	
	Ling Wei Motor Co., Ltd. (“Ling Wei”)	Sales of second-hand vehicle	100.00	100.00	
COC	Y. M. Hi-Tech Industry Ltd. (“Y. M. Hi-Tech”)	Steel cutting	42.30	42.30	b)
	Shye Shinn Corporation (“Shye Shinn”)	Investment	49.76	49.76	b)
Kian Shen Investment	Kian Shen Investment Hong Kong Co., Limited (KSIHK)	Investment	43.87	43.87	a)
Hwa-Yu	Hwa-Lin Investments Ltd. (“Hwa-Lin”)	Overseas investment of production and service industries	100.00	100.00	
	Fujian Rui Hua Consulting Co., Ltd. (“Fujian Rui Hua”)	Consulting and services	100.00	100.00	
GH	Gatetech International Co., Ltd. (GI)	Investment	72.81	72.81	
	Greentrans Investment	Jiangsu Greentrans Automotive Parts Co., Ltd. (“Jiangsu Greentrans”)	Production and sales of parts of electronic motorcycle	100.00	100.00
Shye Shinn	Zhengzhou Tooling & Stamping Co., Ltd. (“Zhengzhou Tooling & Stamping”)	Design, production, sales and technical service of mold, fixture and gauge of vehicle	-	29.86	b) and e)
GI	Gatetech (Suchou) Technology Co., Ltd (“Gatetech Suchou Technology”)	Aluminum-magnesium alloy casting industry	72.81	72.81	
Hwa-Lin	Dongguan Huayi Motor Maintenance Co., Ltd. (“Dongguan Huayi”)	Sales and maintenance of vehicle and parts	100.00	100.00	
	Tianjin Hwarui Maintenance Co., Ltd. (“Tianjin Hwarui”)	Sales and maintenance of vehicle and parts	100.00	100.00	
	Sichuan Huafeng Hanwei Cars Service and Maintenance Co., Ltd. (“Sichuan Huafeng Hanwei”)	Sales and maintenance of vehicle and parts	100.00	100.00	
	Guangzhou Huayou Motor Maintenance Co., Ltd. (“Guangzhou Huayou Motor Maintenance”)	Sales and maintenance of vehicle and parts	100.00	100.00	
Dongguan Huayi	Dongguan Huashun Motor Sales Co., Ltd. (“Dongguan Huashun”)	Sales and maintenance of vehicle and parts	100.00	100.00	
Tianjin Hwarui	Tianjin Hwahong Sales Co., Ltd. (“Tianjin Hwahong”)	Sales of vehicle and parts	100.00	100.00	
Sichuan Huafeng Hanwei	Sichuan Houwei Cars Service and Maintenance Co., Ltd. (“Sichuan Houwei”)	Sales of vehicle and parts	100.00	100.00	f)
	Sichuan Lingwei Cars Service and Maintenance Co., Ltd. (“Sichuan Lingwei”)	Sales of vehicle and parts	100.00	100.00	
Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales Co., Ltd. (“Guangzhou Huayou Motor Sales”)	Sales of vehicle and parts	100.00	100.00	

Financial Highlights

Notes:

- a) The Group's equity in Kian Shen was 43.87%. Kian Shen is a listed company, and 56.13% of Kian Shen's shares were held by numerous shareholders unrelated to the Group. Considering the Group's substantial influence on Kian Shen in terms of having an absolute number of voting rights and the relative size of the other shareholdings, Kian Shen was deemed a subsidiary.
- b) The Group's equity in COC was 49.76%. However, the parent company controls more than half of the members of the board and holds a significant number of COC's shares; thus, COC was considered a subsidiary.
- c) In April 2009, the board of directors of Hwa Hann decided to dissolve Hwa Hann; as of December 31, 2017, the liquidation has not been completed.
- d) The board of directors of CMC Investment determined to merge CMC Investment with the Corporation. The merger occurred on March 31, 2016 with the Corporation as the acquiring company and CMC Investment as the acquired company. This merger retained the name of the acquiring company. The income and expenses of CMC Investment before the merger were included in the Corporation's consolidated financial statements for the year ended December 31, 2016.
- e) All of the interest of Zhengzhou Tooling & Stamping has been disposed on September 15, 2017, refer to Notes 13 and 26.
- f) In October 2017, Sichuan Hanwei made the cancellation of registration, as of December 31, 2017, the cancellation of registration had not been completed.

For the relationship between the Corporation and its controlled entities as of December 31, 2017, please refer to Table 9.

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interests in the acquiree, the excess are recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

f. Foreign currencies

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

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

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

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries, associates and joint ventures in country or with currency different from that of the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of the reporting year. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Corporation and non-controlling interests as appropriate).

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

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

g. Inventories

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

h. Investment in associates and joint ventures

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

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

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Under the equity method, investments in an associate and a joint venture are 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 and joint venture. The Group also recognizes the changes in the Group's share of the equity of associates and joint venture attributable to the Group. The Group's equity in the investees' net income or net loss is calculated using the treasury share method when investees also have investments in the Group (reciprocal holding).

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

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

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture, 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 and joint venture.

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

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

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

Financial Highlights

i. Property, plant and equipment

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

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

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

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

j. Investment properties

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

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

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

k. Intangible assets

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

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

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

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

Financial Highlights

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

1. Impairment of tangible and intangible assets

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 an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

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

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

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

m. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. Financial assets at fair value through profit or loss

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

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

Financial Highlights

Fair value is determined in the manner described in Note 28.

ii. Available-for-sale financial assets

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

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

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

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

iii. Loans and receivables

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

b) Impairment of financial assets

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

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

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

Financial Highlights

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

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

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

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

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

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

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

c) Derecognition of financial assets

The 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) Derivative financial instruments

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

Financial Highlights

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

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

n. Hedge accounting

The Group designates certain hedging instruments as cash flow hedges.

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

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

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

o. Provisions

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

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

p. Revenue recognition

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

Financial Highlights

1) Sale of goods

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

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

2) Rendering of services

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

3) Royalties

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

4) Dividend and interest income

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

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

q. Government grants

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

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

Financial Highlights

r. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

s. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the 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 and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Financial Highlights

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 assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the 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.

Write-down of Inventory

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash		
Cash on hand	\$ 5,272	\$ 6,484
Checking accounts and demand deposits	<u>2,781,356</u>	<u>2,954,521</u>
	<u>2,786,628</u>	<u>2,961,005</u>
Cash equivalents		
Time deposits	10,056,737	10,681,084
Repurchase agreements collateralized by bonds	<u>972,676</u>	<u>589,670</u>
	<u>11,029,413</u>	<u>11,270,754</u>
	<u>\$ 13,816,041</u>	<u>\$ 14,231,759</u>

Financial Highlights

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

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

	<u>December 31</u>	
	2017	2016
Checking accounts and demand deposits	0.00%-2.00%	0.00%-2.00%
Time deposits	0.16%-4.20%	0.29%-6.50%
Repurchase agreements collateralized by bonds	0.37%-0.39%	0.35%-0.40%

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

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

December 31, 2017

Currency	Due Date	Notional Amount (In Thousands)
JPY/NTD	2018.01.18-2018.03.31	JPY1,771,108/NTD467,927

December 31, 2016

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

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2017	2016
<u>Financial assets</u>		
Financial assets held for trading		
Non-derivative financial assets		
Mutual funds	\$ 529,496	\$ 15,041
Derivative financial assets		
Forward foreign exchange contracts	-	812
	<u>\$ 529,496</u>	<u>\$ 15,853</u>
<u>Financial liabilities (included in other current liabilities)</u>		
Financial liabilities held for trading		
Derivative financial liabilities		
Foreign exchange rate swaps	\$ 2,954	-

Financial Highlights

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

December 31, 2017

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

December 31, 2016

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

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2017	2016
<u>Current</u>		
Domestic investments		
Mutual funds	\$ -	\$ 731,135
<u>Non-current</u>		
Domestic investments		
Unlisted shares	\$ 703,983	\$ 732,680
Listed shares	22,489	112,132
	<u>\$ 726,472</u>	<u>\$ 844,812</u>

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGING

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

Financial Highlights

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

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

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

Gains and losses of hedging instruments reclassified from equity to cost of goods sold were \$42,546 thousand and \$6,188 thousand for the years ended December 31, 2017 and 2016, respectively.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	2017	2016
<u>Notes receivable</u>		
Notes receivable - operating	\$ 23,886	\$ 105,459
Less: Allowance for impairment loss	<u>(87)</u>	<u>(873)</u>
	<u>\$ 23,799</u>	<u>\$ 104,586</u>
<u>Accounts receivable</u>		
Accounts receivable	\$ 1,168,194	\$ 1,178,774
Less: Allowance for impairment loss	<u>(6,701)</u>	<u>(8,943)</u>
	<u>\$ 1,161,493</u>	<u>\$ 1,169,831</u>

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

For the notes receivable and accounts receivable balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

Financial Highlights

The aging of receivables was as follows:

	<u>December 31</u>	
	2017	2016
0 days	\$ 1,146,395	\$ 1,228,846
1-60 days	37,367	35,400
61-90 days	6,405	11,059
More than 90 days	<u>1,913</u>	<u>8,928</u>
	<u>\$ 1,192,080</u>	<u>\$ 1,284,233</u>

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

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

	<u>December 31</u>	
	2017	2016
1-60 days	\$ 1,295	\$ 20,120
61-90 days	404	7,024
More than 90 days	<u>8</u>	<u>8</u>
	<u>\$ 1,707</u>	<u>\$ 27,152</u>

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ 2,461	\$ 5,343	\$ 7,804
Add: Impairment losses recognized on receivables	67	2,809	2,876
Less: Impairment losses reversed	-	(834)	(834)
Foreign exchange translation gains and losses	<u>-</u>	<u>(30)</u>	<u>(30)</u>
Balance at December 31, 2016	<u>\$ 2,528</u>	<u>\$ 7,288</u>	<u>\$ 9,816</u>
Balance at January 1, 2017	\$ 2,528	\$ 7,288	\$ 9,816
Add: Impairment losses recognized on receivables	-	41	41
Less: Impairment losses reversed	-	(3,058)	(3,058)
Foreign exchange translation gains and losses	<u>-</u>	<u>(11)</u>	<u>(11)</u>
Balance at December 31, 2017	<u>\$ 2,528</u>	<u>\$ 4,260</u>	<u>\$ 6,788</u>

11. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

The Group had a 43.87% interest in Kian Shen as of December 31, 2017 and 2016. The remaining 56.13% interest in Kian Shen is dispersed and held by shareholders unrelated to the Group.

See Table 6 for the information on place of incorporation and principal place of business.

Financial Highlights

The summarized financial information below represents amounts before intragroup eliminations.

Kian Shen and Kian Shen's subsidiaries:

	December 31	
	2017	2016
Current assets	\$ 893,851	\$ 831,523
Non-current assets	3,904,197	3,557,519
Current liabilities	(746,612)	(585,482)
Non-current liabilities	<u>(164,347)</u>	<u>(251,370)</u>
Equity	<u>\$ 3,887,089</u>	<u>\$ 3,552,190</u>
Equity attributable to:		
Owners of Kian Shen	\$ 1,705,266	\$ 1,558,346
Non-controlling interests of Kian Shen	<u>2,181,823</u>	<u>1,993,844</u>
	<u>\$ 3,887,089</u>	<u>\$ 3,552,190</u>
	For the Year Ended December 31	
	2017	2016
Revenue	<u>\$ 1,169,100</u>	<u>\$ 1,194,399</u>
Profit for the year	\$ 540,584	\$ 529,412
Other comprehensive loss for the year	<u>(36,865)</u>	<u>(267,332)</u>
Total comprehensive income for the year	<u>\$ 503,719</u>	<u>\$ 262,080</u>
Profit attributable to:		
Owners of Kian Shen	\$ 237,154	\$ 232,253
Non-controlling interests of Kian Shen	<u>303,430</u>	<u>297,159</u>
	<u>\$ 540,584</u>	<u>\$ 529,412</u>
Total comprehensive income attributable to:		
Owners of Kian Shen	\$ 220,982	\$ 114,974
Non-controlling interests of Kian Shen	<u>282,737</u>	<u>147,106</u>
	<u>\$ 503,719</u>	<u>\$ 262,080</u>
Net cash inflow (outflow) from:		
Operating activities	\$ (50,868)	\$ 18,121
Investing activities	30,244	388,080
Financing activities	(98,820)	(67,294)
Foreign exchange adjustments	<u>(6,126)</u>	<u>(15,869)</u>
Net cash inflow (outflow)	<u>\$ (125,570)</u>	<u>\$ 323,038</u>
Dividends paid to non-controlling interests of Kian Shen	<u>\$ 94,759</u>	<u>\$ 77,735</u>

Financial Highlights

12. INVENTORIES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Merchandise	\$ 350,679	\$ 255,334
Finished goods	1,821,266	2,173,043
Work in progress	331,154	389,590
Raw materials	1,785,137	1,979,613
Materials in transit	<u>176,233</u>	<u>250,740</u>
	<u>\$ 4,464,469</u>	<u>\$ 5,048,320</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 were \$31,358,370 thousand and \$32,354,774 thousand, respectively. The cost of goods sold for the years ended December 31, 2017 and 2016 included inventory write-downs of \$73,531 thousand and \$6,681 thousand, respectively.

A fire occurred in the Group's subsidiary, Kian Shen, in May 2016. The Group recognized an inventory retirement loss of \$1,822 thousand (included in other expenses) for the year ended December 31, 2016.

13. DISCONTINUED OPERATIONS

On October 14, 2016, the Group approved to dispose of Zhengzhou Tooling & Stamping Co., Ltd., which is the Corporation's subsidiary, in the shareholders' meeting. The Group entered into a memorandum with Zhengzhou Nissan Automobile Co., Ltd. The base date for the measurement of the disposal price was May 31, 2017.

The transaction was completed on September 15, 2017. Therefore, income and expenses related to the subsidiary were classified as discontinued operations.

The details of the profit (loss) from discontinued operations and the related cash flow information were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Operating revenue	\$ 60,596	\$ 149,061
Operating costs	<u>(51,342)</u>	<u>(125,992)</u>
Gross profit	9,254	23,069
Operating expenses	<u>(6,795)</u>	<u>(16,338)</u>
Profit from operations	2,459	6,731
Non-operating income and expenses	<u>203</u>	<u>46</u>
Profit before tax	2,662	6,777
Income tax benefit (expenses)	<u>177</u>	<u>(1,765)</u>
Net profit for the period	<u>\$ 2,839</u>	<u>\$ 5,012</u>
Profit from discontinued operations attributable to:		
Owners of Zhengzhou Tooling & Stamping	\$ 847	\$ 1,496
Non-controlling interests	<u>1,992</u>	<u>3,516</u>
	<u>\$ 2,839</u>	<u>\$ 5,012</u>

(Continued)

Financial Highlights

	For the Year Ended December 31	
	2017	2016
Net cash generated from (used in) operating activities	\$ (16,089)	\$ 31,940
Net cash used in financing activities	(5,045)	(4,471)
Foreign exchange adjustments	<u>(1,841)</u>	<u>(3,863)</u>
Net cash inflows (outflows)	<u>\$ (22,975)</u>	<u>\$ 23,606</u> (Concluded)

14. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	2016
<u>Non-current</u>		
Overseas unlisted ordinary shares	\$ 146,734	\$ 167,134
Domestic unlisted ordinary shares	<u>48,126</u>	<u>99,913</u>
	<u>\$ 194,860</u>	<u>\$ 267,047</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 194,860</u>	<u>\$ 267,047</u>

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

The Group disposed of certain financial assets measured at cost with carrying amounts of \$2,801 thousand and \$17,714 thousand for the years ended December 31, 2017 and 2016, respectively, recognizing a disposal benefit of \$84,031 thousand and a disposal loss of \$1,414 thousand, respectively (included in gain on disposal of investments).

The Group evaluated its invested-in entities by their future cash flows and market rate of return and recognized an impairment loss of \$21,616 thousand and \$7,359 thousand for the years ended December 31, 2017 and 2016, respectively.

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

Financial Highlights

15. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<u>December 31</u>	
	2017	2016
<u>Current</u>		
Negotiable certificates of deposit	\$ 700,000	\$ -
Principal guaranteed notes	44,052	29,854
Bonds	<u>-</u>	<u>32,308</u>
	<u>\$ 744,052</u>	<u>\$ 62,162</u>
<u>Non-current</u>		
Bonds	\$ 1,018,136	\$ 1,026,965
Principal guaranteed notes	506,715	512,487
Preference shares	<u>9,900</u>	<u>306,840</u>
	<u>\$ 1,534,751</u>	<u>\$ 1,846,292</u>

- a. The coupon rate of negotiable certificates of deposit was 0.83% per annum as of December 31, 2017.
- b. The range of coupon rates of principal guaranteed notes was 2.05%-3.85% and 3.32%-3.85% per annum as of December 31, 2017 and 2016, respectively.
- c. The range of coupon rates of bonds was 1.02%-4.80% and 3.50%-5.88% per annum as of December 31, 2017 and 2016, respectively.
- d. The coupon rate and range of coupon rate for the Group's preference shares was 1.50% and 1.50%-3.70% per annum as of December 31, 2017 and 2016, respectively.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	2017	2016
Investments in associates	\$ 20,465,081	\$ 20,422,864
Investments in joint ventures	<u>7,235,581</u>	<u>6,147,929</u>
	<u>\$ 27,700,662</u>	<u>\$ 26,570,793</u>

- a. Investments in associates

Associate	<u>December 31</u>	
	2017	2016
Material associates		
Yulon	\$ 11,283,338	\$ 11,241,524
Associates that are not individually material	<u>9,181,743</u>	<u>9,181,340</u>
	<u>\$ 20,465,081</u>	<u>\$ 20,422,864</u>

Financial Highlights

1) Material associates

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

The Group holds 16.80% interest in Yulon on December 31, 2017 and 2016, respectively.

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

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

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

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

All the associates are accounted for using the equity method.

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

Yulon

	December 31	
	2017	2016
Current assets	\$ 169,428,441	\$ 131,584,835
Non-current assets	88,988,066	89,686,806
Current liabilities	(158,832,963)	(132,381,417)
Non-current liabilities	<u>(20,462,405)</u>	<u>(9,827,404)</u>
Equity	79,121,139	79,062,820
Non-controlling interests	<u>(8,688,986)</u>	<u>(9,348,274)</u>
	<u>\$ 70,432,153</u>	<u>\$ 69,714,546</u>
Proportion of the Group's ownership	16.80%	16.80%
Equity attributable to the Group	\$ 11,832,602	\$ 11,712,044
Cross shareholdings	(552,549)	(473,805)
Unrealized gain on sidestream transactions	<u>3,285</u>	<u>3,285</u>
Carrying amount	<u>\$ 11,283,338</u>	<u>\$ 11,241,524</u>

Financial Highlights

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

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Net profit for the year	\$ 483,643	\$ 526,129
Other comprehensive loss	<u>(42,938)</u>	<u>(213,409)</u>
Total comprehensive income for the year	<u>\$ 440,705</u>	<u>\$ 312,720</u>

All the associates are accounted for using the equity method.

Investments in associates that are not individually material were accounted for using the equity method although the Group had less than 20% interest because the Group exercised significant influence on their major transactions or had the same president of the board.

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

b. Investments in joint ventures

	December 31	
	2017	2016
Joint ventures that are not individually material	<u>\$ 7,235,581</u>	<u>\$ 6,147,929</u>

Aggregate information of joint ventures that are not individually material:

	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Net profit of the year	\$ 1,346,091	\$ 712,995
Other comprehensive loss	<u>(60,714)</u>	<u>(489,207)</u>
Total comprehensive income for the year	<u>\$ 1,285,377</u>	<u>\$ 223,788</u>

All the joint ventures are accounted for using the equity method.

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

Financial Highlights

17. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery	Other Equipment	Construction in Progress	Total
Cost							
Balance at January 1, 2016	\$ 2,125,129	\$ 115,208	\$ 4,914,048	\$ 24,727,454	\$ 1,767,624	\$ 580,367	\$ 34,229,830
Additions	-	-	6,915	22,425	92,800	718,831	840,971
Disposals	-	(3,227)	(9,165)	(956,318)	(85,795)	-	(1,054,505)
Reclassification	2,268	3,105	31,256	670,614	73,844	(778,819)	2,268
Effect of foreign currency exchange differences	-	-	(45,663)	(42,877)	(5,465)	(17,289)	(111,294)
Balance at December 31, 2016	<u>\$ 2,127,397</u>	<u>\$ 115,086</u>	<u>\$ 4,897,391</u>	<u>\$ 24,421,298</u>	<u>\$ 1,843,008</u>	<u>\$ 503,090</u>	<u>\$ 33,907,270</u>
Accumulated depreciation and impairment							
Balance at January 1, 2016		\$ 97,680	\$ 3,590,303	\$ 22,518,496	\$ 1,480,228	\$ -	\$ 27,686,707
Disposals		(3,224)	(9,069)	(945,208)	(60,346)	-	(1,017,847)
Depreciation expenses		5,702	137,788	652,133	70,398	-	866,021
Reclassification		-	-	66	(66)	-	-
Impairment losses		-	4,218	-	-	-	4,218
Effect of foreign currency exchange differences		-	(20,221)	(40,778)	(3,273)	-	(64,272)
Balance at December 31, 2016		<u>\$ 100,158</u>	<u>\$ 3,703,019</u>	<u>\$ 22,184,709</u>	<u>\$ 1,486,941</u>	<u>\$ -</u>	<u>\$ 27,474,827</u>
Carrying amounts at December 31, 2016	<u>\$ 2,127,397</u>	<u>\$ 14,928</u>	<u>\$ 1,194,372</u>	<u>\$ 2,236,589</u>	<u>\$ 356,067</u>	<u>\$ 503,090</u>	<u>\$ 6,432,443</u>
Cost							
Balance at January 1, 2017	\$ 2,127,397	\$ 115,086	\$ 4,897,391	\$ 24,421,298	\$ 1,843,008	\$ 503,090	\$ 33,907,270
Additions	-	-	6,117	15,356	88,945	1,039,572	1,149,990
Disposals	-	(2,572)	-	(761,001)	(124,587)	-	(888,160)
Reclassification	-	2,159	51,987	833,347	75,205	(962,969)	(271)
Disposal of subsidiary	-	-	-	(222)	(2,557)	-	(2,779)
Effect of foreign currency exchange differences	-	-	(4,649)	(7,156)	(742)	(33)	(12,580)
Balance at December 31, 2017	<u>\$ 2,127,397</u>	<u>\$ 114,673</u>	<u>\$ 4,950,846</u>	<u>\$ 24,501,622</u>	<u>\$ 1,879,272</u>	<u>\$ 579,660</u>	<u>\$ 34,153,470</u>
Accumulated depreciation and impairment							
Balance at January 1, 2017		\$ 100,158	\$ 3,703,019	\$ 22,184,709	\$ 1,486,941	\$ -	\$ 27,474,827
Disposals		(2,571)	-	(757,766)	(81,418)	-	(841,755)
Depreciation expenses		4,371	138,341	705,914	75,877	-	924,503
Reclassification		34	257	(25)	(396)	-	(130)
Impairment losses		-	-	62,199	117	-	62,316
Disposal of subsidiary		-	-	(170)	(2,148)	-	(2,318)
Effect of foreign currency exchange differences		-	(1,010)	(5,587)	(419)	-	(7,016)
Balance at December 31, 2017		<u>\$ 101,992</u>	<u>\$ 3,840,607</u>	<u>\$ 22,189,274</u>	<u>\$ 1,478,554</u>	<u>\$ -</u>	<u>\$ 27,610,427</u>
Carrying amounts at December 31, 2017	<u>\$ 2,127,397</u>	<u>\$ 12,681</u>	<u>\$ 1,110,239</u>	<u>\$ 2,312,348</u>	<u>\$ 400,718</u>	<u>\$ 579,660</u>	<u>\$ 6,543,043</u>

The Group's subsidiary, Kian Shen, experienced a fire in May 2016. The Group recognized a property, plant and equipment retirement loss of \$7,920 thousand (included in other expenses) and a factory impairment loss of \$4,218 thousand for the year ended December 31, 2016.

Because the sales volume of certain car models is lower than expected, the estimated future cash flows expected to arise from the related equipment decreased. The Group carried out a review of the recoverable amount of the related equipment and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss of \$62,316 thousand for the year ended December 31, 2017. The Group determined the recoverable amount of the relevant assets on the basis of their value in use. The discount rate used in measuring the value in use was 6.69% per annum.

Financial Highlights

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

<u>Category</u>	<u>Year</u>
Land improvements	3-20 years
Buildings	2-60 years
Machinery	2-24 years
Other equipment	2-20 years

Property, plant and equipment pledged as collateral for bank borrowing is set out in Note 30.

18. INVESTMENT PROPERTIES

Cost

Balance at January 1, 2016	\$ 1,822,884
Reclassification	<u>(2,268)</u>
Balance at December 31, 2016	<u>\$ 1,820,616</u>

Accumulated depreciation and impairment

Balance at January 1, 2016	\$ 393,940
Depreciation expenses	<u>15,663</u>
Balance at December 31, 2016	<u>\$ 409,603</u>
Carrying amounts at December 31, 2016	<u>\$ 1,411,013</u>

Cost

Balance at January 1, 2017	\$ 1,820,616
Reclassification	<u>271</u>
Balance at December 31, 2017	<u>\$ 1,820,887</u>

Accumulated depreciation and impairment

Balance at January 1, 2017	\$ 409,603
Depreciation expenses	15,666
Reclassification	<u>130</u>
Balance at December 31, 2017	<u>\$ 425,399</u>
Carrying amounts at December 31, 2017	<u>\$ 1,395,488</u>

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

Financial Highlights

The fair value of investment properties of the Group were \$2,312,470 thousand and \$2,288,404 thousand as of December 31, 2017 and 2016, respectively. Except for a part of investment properties appraised by the independent valuer, Po Hung Chen, as of December 31, 2017 and 2016, the remaining investment properties as of December 31, 2017 and 2016 were appraised by the Group's management using the valuation model which other market participants frequently use. The valuation from management was arrived at by reference to market evidence of transaction prices for similar properties. The independent valuer's valuation referenced the weighted-average cost analysis and revenue method and assumed a discount rate of 3.04% as of December 31, 2017 and 2016, respectively, and a capitalization rate of 2.24% as of both dates.

For the amount of investment properties pledged as deposits for certain projects, refer to Note 30.

19. SHORT-TERM BORROWINGS

	December 31	
	2017	2016
Line of credit borrowings	\$ 415,000	\$ 353,000
Bank secured loans	<u>330,000</u>	<u>415,000</u>
	<u>\$ 745,000</u>	<u>\$ 768,000</u>

- The range of interest rates on credit borrowings was 0.95%-1.54% and 0.99%-1.54% per annum as of December 31, 2017 and 2016, respectively.
- The interest rate and range of interest rates on bank loans was 1.25% and 1.20%-1.42% per annum as of December 31, 2017 and 2016, respectively.

20. OTHER PAYABLES

	December 31	
	2017	2016
Payable for salaries or bonuses	\$ 1,265,640	\$ 1,367,430
Payable for warranties	269,322	218,465
Payable for advertisement	233,386	164,536
Payable for taxes	151,991	165,898
Provisions for employee benefits	115,788	124,343
Others	<u>835,861</u>	<u>1,087,140</u>
	<u>\$ 2,871,988</u>	<u>\$ 3,127,812</u>

21. RETIREMENT BENEFIT PLANS

- Defined contribution plans

The Corporation and Kian Shen, China Engine, Advance Power Machinery, Sino Diamond Motors, Brilliant Insight International, COC, Y.M. Hi-Tech, Gatetech Technology and Ling Wei of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Financial Highlights

The employees of the Group's subsidiaries in China are members of a state-managed retirement benefit plan operated by the government of China. The subsidiary is required to contribute a specified percentage of payroll costs per month to the retirement benefit scheme to fund the benefits.

b. Defined benefit plans

The defined benefit plan adopted by the Corporation and Kian Shen, China Engine, Sino Diamond Motors, COC, Y.M. Hi-Tech and Gatetech Technology of the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Group contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the 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:

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ 2,532,411	\$ 2,512,855
Fair value of plan assets	<u>(1,391,714)</u>	<u>(1,140,929)</u>
Net defined benefit liabilities	<u>\$ 1,140,697</u>	<u>\$ 1,371,926</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2016	\$ 2,312,467	\$ (134,803)	\$ 2,177,664
Service cost			
Current service cost	48,819	-	48,819
Past service cost	10,527	-	10,527
Net interest expense (income)	<u>37,477</u>	<u>(2,481)</u>	<u>34,996</u>
Recognized in loss (profit)	<u>96,823</u>	<u>(2,481)</u>	<u>94,342</u>
Remeasurement			
Return on plan assets	-	(4,165)	(4,165)
Actuarial loss - changes in demographic assumptions	8,886	-	8,886
Actuarial loss - changes in financial assumptions	158,079	-	158,079
Actuarial loss - experience adjustments	<u>51,832</u>	<u>-</u>	<u>51,832</u>
Recognized in other comprehensive income	<u>218,797</u>	<u>(4,165)</u>	<u>214,632</u>
Contributions from the employer	-	(1,060,904)	(1,060,904)
Benefits paid	(61,424)	61,424	-
Portion of benefits paid by the Corporation	<u>(53,808)</u>	<u>-</u>	<u>(53,808)</u>
Balance at December 31, 2016	<u>2,512,855</u>	<u>(1,140,929)</u>	<u>1,371,926</u>

(Continued)

Financial Highlights

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Service cost			
Current service cost	\$ 49,678	\$ -	\$ 49,678
Net interest expense (income)	<u>26,833</u>	<u>(12,774)</u>	<u>14,059</u>
Recognized in loss (profit)	<u>76,511</u>	<u>(12,774)</u>	<u>63,737</u>
Remeasurement			
Return on plan assets	-	1,618	1,618
Actuarial loss - changes in demographic assumptions	18,072	-	18,072
Actuarial loss - changes in financial assumptions	5,714	-	5,714
Actuarial loss - experience adjustments	<u>6,056</u>	<u>-</u>	<u>6,056</u>
Recognized in other comprehensive income	<u>29,842</u>	<u>1,618</u>	<u>31,460</u>
Contributions from the employer	-	(296,906)	(296,906)
Benefits paid	(57,277)	57,277	-
Portion of benefits paid by the Corporation	<u>(29,520)</u>	<u>-</u>	<u>(29,520)</u>
Balance at December 31, 2017	<u>\$ 2,532,411</u>	<u>\$ (1,391,714)</u>	<u>\$ 1,140,697</u> (Concluded)

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

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Operating costs	\$ 36,953	\$ 54,080
Selling and marketing expenses	2,068	3,007
General and administrative expenses	4,818	7,360
Research and development expenses	<u>19,175</u>	<u>28,457</u>
	<u>\$ 63,014</u>	<u>\$ 92,904</u>

The amount of disbursement of defined benefit plans of associates is \$723 thousand and \$1,438 thousand in 2017 and 2016, respectively.

Through the defined benefit plans under the Labor Standards Law, 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 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.

Financial Highlights

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

	December 31	
	2017	2016
Discount rate	1.125%-1.45%	1%-1.7%
Expected rate of salary increase	1%-2.5%	1%-2.5%

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

	December 31	
	2017	2016
Discount rate		
0.25% increase	<u>\$ (69,817)</u>	<u>\$ (72,781)</u>
0.25% decrease	<u>\$ 72,609</u>	<u>\$ 75,813</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 71,269</u>	<u>\$ 74,453</u>
0.25% decrease	<u>\$ (68,866)</u>	<u>\$ (71,829)</u>

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

	December 31	
	2017	2016
Expected contributions to the plans for the next year	<u>\$ 307,420</u>	<u>\$ 327,264</u>
Average duration of the defined benefit obligation	9.1-17 years	9.3-18 years

22. EQUITY

a. Ordinary shares

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

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

Financial Highlights

b. Capital surplus

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

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

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

c. Retained earnings and dividends policy

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

Under the dividends policy as set forth in the amended Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes and offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonuses to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to Note 23.

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

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

Financial Highlights

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

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

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

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

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

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

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

The appropriation of earnings for 2016 are subject to the resolution in the shareholders’ meeting to be held in June 2018.

d. Special reserves

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

Financial Highlights

e. Other equity items

1) Exchange differences on translating foreign operations

	<u>For the Year Ended December 31</u>	
	2017	2016
Balance at January 1	\$ (268,058)	\$ 571,137
Exchange differences on translating the financial statements of foreign operations	(887)	13,927
Share of exchange differences of associates and joint ventures accounted for using the equity method	<u>(216,173)</u>	<u>(853,122)</u>
Balance at December 31	<u>\$ (485,118)</u>	<u>\$ (268,058)</u>

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

	<u>For the Year Ended December 31</u>	
	2017	2016
Balance at January 1	\$ 850,984	\$ 897,338
Unrealized loss arising on revaluation of available-for-sale financial assets	(120,588)	(54,531)
Share of unrealized gain on revaluation of available-for-sale financial assets of associates accounted for using the equity method	<u>35,060</u>	<u>8,177</u>
Balance at December 31	<u>\$ 765,456</u>	<u>\$ 850,984</u>

3) Total loss on effective portion of cash flow hedges

	<u>For the Year Ended December 31</u>	
	2017	2016
Balance at January 1	\$ (28,635)	\$ 1,402
Transferred to initial carrying amount of hedged items		
Foreign exchange rate swaps	17,271	(19,326)
Foreign exchange forward contracts	2,813	(16,864)
Related income tax	<u>(3,702)</u>	<u>6,153</u>
Balance at December 31	<u>\$ (12,253)</u>	<u>\$ (28,635)</u>

Financial Highlights

f. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	\$ 3,299,707	\$ 3,143,866
Attributable to non-controlling interests:		
Share of profit for the year	434,547	408,272
Exchange difference on translation of foreign operations	(24,278)	(170,235)
Remeasurement on defined benefit plans	(3,643)	(5,732)
Related income tax	619	961
Partial disposal of subsidiaries	(25,752)	-
Cash dividends to subsidiaries' shareholders	<u>(174,259)</u>	<u>(77,425)</u>
Balance at December 31	<u>\$ 3,506,941</u>	<u>\$ 3,299,707</u>

23. NET PROFIT FROM CONTINUING OPERATIONS

Net profit from continuing operations concludes as follow:

a. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
An analysis of depreciation by function		
Operating costs	\$ 800,487	\$ 745,620
Operating expenses	<u>139,608</u>	<u>135,864</u>
	<u>\$ 940,095</u>	<u>\$ 881,484</u>
An analysis of amortization by function		
Operating cost	\$ 13,181	\$ 8,756
Operating expenses	<u>68,126</u>	<u>63,429</u>
	<u>\$ 81,307</u>	<u>\$ 72,185</u>
An analysis of amortization in intangible assets by function		
Research and development expenses	<u>\$ 37,808</u>	<u>\$ 37,808</u>

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

	For the Year Ended December 31	
	2017	2016
Rental income from investment properties	<u>\$ 63,677</u>	<u>\$ 63,877</u>
Direct operating expenses from investment properties that generated rental income	<u>\$ 22,289</u>	<u>\$ 23,352</u>

Financial Highlights

c. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plans	\$ 86,216	\$ 85,897
Defined benefit plans	<u>63,014</u>	<u>92,904</u>
	149,230	178,801
Short-term benefits	<u>3,834,554</u>	<u>4,000,692</u>
	<u>\$ 3,983,784</u>	<u>\$ 4,179,493</u>
An analysis of employee benefits expenses by function		
Operating costs	\$ 2,158,398	\$ 2,257,995
Operating expenses	<u>1,825,386</u>	<u>1,921,498</u>
	<u>\$ 3,983,784</u>	<u>\$ 4,179,493</u>

d. Employees' compensation and remuneration of directors and supervisors

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

Accrual rate

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

Amount

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

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

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

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

Financial Highlights

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

Major components of tax expense were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	\$ 470,717	\$ 302,668
Adjustments for prior years	<u>(48,274)</u>	<u>(79)</u>
	<u>422,443</u>	<u>302,589</u>
Deferred tax		
In respect of the current year	(78,285)	195,535
Adjustments for prior years	<u>(5,502)</u>	<u>(4,932)</u>
	<u>(83,787)</u>	<u>190,603</u>
Income tax expense recognized in profit or loss	<u>\$ 338,656</u>	<u>\$ 493,192</u>

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

	For the Year Ended December 31	
	2017	2016
Profit before tax from continuing operations	<u>\$ 4,876,007</u>	<u>\$ 4,085,552</u>
Income tax expense calculated at the statutory rate	\$ 828,921	\$ 694,544
Tax-exempt income	(259,252)	(162,306)
Income tax on unappropriated earnings	72,156	88,298
Unrecognized deductible temporary differences	(48,593)	(53,323)
Investment credits	(74,235)	(75,390)
Unrecognized loss carryforwards	(117,188)	324
Effect of different tax rate of group entities operating in other jurisdictions	19,778	17,136
Adjustments for prior years' tax	(53,776)	(5,011)
Others	<u>(29,155)</u>	<u>(11,080)</u>
Income tax expense recognized in profit or loss	<u>\$ 338,656</u>	<u>\$ 493,192</u>

The applicable corporate income tax rate used by the Group in the ROC is 17%, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In February 2018, it was announced that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and increase by \$73,588 thousand and \$7,898 thousand, respectively, in 2018.

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

Financial Highlights

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
<u>Deferred tax</u>		
Remeasurement on defined benefit plans	\$ 5,348	\$ 36,462
Total loss (gain) on effective portion of cash flow hedges	<u>(3,702)</u>	<u>6,153</u>
Total income tax recognized in other comprehensive income	<u>\$ 1,646</u>	<u>\$ 42,615</u>

c. Current tax assets and liabilities

	December 31	
	2017	2016
<u>Current tax assets (included in other current assets)</u>		
Tax refund receivable	\$ 1,287	\$ 6,889
Prepaid income tax	<u>-</u>	<u>9,173</u>
	<u>\$ 1,287</u>	<u>\$ 16,062</u>
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 328,393</u>	<u>\$ 214,133</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit plans	\$ 206,825	\$ (45,165)	\$ 5,348	\$ -	\$ 167,008
Other payables	46,614	10,852	-	-	57,466
Inventories	22,541	11,083	-	-	33,624
Others	<u>43,843</u>	<u>(8,644)</u>	<u>(3,702)</u>	-	<u>31,497</u>
	319,823	(31,874)	1,646	-	289,595
Loss carryforwards	<u>78,408</u>	<u>48,998</u>	-	-	<u>127,406</u>
	<u>\$ 398,231</u>	<u>\$ 17,124</u>	<u>\$ 1,646</u>	<u>\$ -</u>	<u>\$ 417,001</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Reserve for land value increment tax	\$ 69,799	\$ -	\$ -	\$ -	\$ 69,799
Unappropriated earnings of investments accounted for using the equity method	109,633	(65,762)	-	(715)	43,156
Others	<u>2,500</u>	<u>(901)</u>	-	-	<u>1,599</u>
	<u>\$ 181,932</u>	<u>\$ (66,663)</u>	<u>\$ -</u>	<u>\$ (715)</u>	<u>\$ 114,554</u>

Financial Highlights

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Defined benefit plans	\$ 343,237	\$ (172,874)	\$ 36,462	\$ -	\$ 206,825
Other payables	40,865	5,749	-	-	46,614
Inventories	21,209	1,332	-	-	22,541
Others	<u>17,026</u>	<u>20,951</u>	<u>5,866</u>	-	<u>43,843</u>
	422,337	(144,842)	42,328	-	319,823
Loss carryforwards	<u>63,971</u>	<u>14,437</u>	-	-	<u>78,408</u>
	<u>\$ 486,308</u>	<u>\$ (130,405)</u>	<u>\$ 42,328</u>	<u>\$ -</u>	<u>\$ 398,231</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Reserve for land value increment tax	\$ 69,799	\$ -	\$ -	\$ -	\$ 69,799
Unappropriated earnings of investments accounted for using the equity method	47,918	64,682	-	(2,967)	109,633
Others	<u>7,269</u>	<u>(4,484)</u>	<u>(287)</u>	<u>2</u>	<u>2,500</u>
	<u>\$ 124,986</u>	<u>\$ 60,198</u>	<u>\$ (287)</u>	<u>\$ (2,965)</u>	<u>\$ 181,932</u>

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

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Loss carryforwards		
Expiry in 2017	\$ -	\$ 123,319
Expiry in 2018	126,896	255,854
Expiry in 2019	-	121,375
Expiry in 2020	253,548	317,499
Expiry in 2021	382,025	412,710
Expiry in 2022	171,235	171,848
Expiry in 2023	91,783	91,783
Expiry in 2024	55,235	56,417
Expiry in 2025	23,477	253,288
Expiry in 2026	-	10,251
Expiry in 2027	<u>20,805</u>	<u>-</u>
	<u>\$ 1,125,004</u>	<u>\$ 1,814,344</u>
Deductible temporary differences	<u>\$ 1,962,684</u>	<u>\$ 2,145,116</u>

Financial Highlights

f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2017 comprised:

Unused Amount	Expiry Year
\$ 690,808	2018
121,375	2019
317,705	2020
382,025	2021
171,235	2022
91,783	2023
55,235	2024
23,477	2025
<u>20,805</u>	2027
 <u>\$ 1,874,448</u>	

g. The aggregate amount of temporary difference associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2017 and 2016, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$476,430 thousand and \$445,804 thousand, respectively.

h. Integrated income tax

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

The actual creditable ratio for the distribution of earnings of 2016 was 14.71%.

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

i. Income tax assessments

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

Financial Highlights

25. EARNINGS PER SHARE

Unit: NT\$ Per Share

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

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

Net Profit for the Year

	For the Year Ended December 31	
	2017	2016
Earnings used in the computation of basic earnings per share	\$ 4,105,643	\$ 3,189,100
Less: Profit for the period from discontinued operations used in the computation of basic earnings per share from discontinued operations	<u>847</u>	<u>1,496</u>
Earnings used in the computation of basic earnings per share from continuing operations	<u>\$ 4,104,796</u>	<u>\$ 3,187,604</u>

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

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

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

Financial Highlights

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

26. DISPOSAL OF SUBSIDIARIES

The Group entered into a memorandum with Zhenzhou Nissan Automobile Co., Ltd. on May 23, 2017, and the disposal was completed on September 15, 2017.

a. Consideration received from disposal

	For the Year Ended December 31, 2017
Sales proceeds (US\$1,303 thousand)	<u>\$ 39,419</u>

b. Analysis of assets and liabilities on the date control was lost

	Zhengzhou Tooling & Stamping Co., Ltd.
Current assets	
Cash and cash equivalents	\$ 33,091
Trade receivables	47,350
Other receivables	12
Non-current assets	
Property, plant and equipment	461
Other non-current assets	6
Current liabilities	
Other payables	<u>(16,538)</u>
Net assets disposed of	<u>\$ 64,382</u>

c. Loss on disposal of subsidiary

On the date of the loss of control, the Group reclassified Zhengzhou Tooling & Stamping Co., Ltd. as a disposal group held for sale measured at the fair value of its investments. The differences between the fair value and the book value of the investments on the date of the loss of control were recognized in profit or loss. In addition, for all amounts related to the subsidiaries that were recognized in other comprehensive income, the accounting treatments were consistent with those of the subsidiaries having directly sold the related assets and liabilities. As a result, the loss on the disposal of Zhengzhou Tooling & Stamping Co., Ltd. recognized was \$2,179 thousand (accounted for as the debit to gain on disposal of investments).

Financial Highlights

d. Net cash outflow on disposal of subsidiary

	For the Year Ended December 31, 2017
Proceeds of disposal	\$ 39,419
Less: Cash and cash equivalent balances disposed of	<u>(33,091)</u>
Net cash inflow on disposal of subsidiaries	<u>\$ 6,328</u>

27. 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 stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in the future.

28. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVTPL				
Mutual funds	<u>\$ 529,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 529,496</u>
Available-for-sale financial assets				
Listed securities - ROC	\$ 22,489	\$ -	\$ -	\$ 22,489
Unlisted securities - ROC	<u>-</u>	<u>-</u>	<u>703,983</u>	<u>703,983</u>
	<u>\$ 22,489</u>	<u>\$ -</u>	<u>\$ 703,983</u>	<u>\$ 726,472</u>

(Continued)

Financial Highlights

	Level 1	Level 2	Level 3	Total
<u>Financial liabilities</u>				
Financial liabilities at FVTPL				
Derivative financial instruments (included in other current liabilities)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 2,954</u>	\$ <u> 2,954</u>
Derivative financial assets for hedging				
Derivative financial instruments (included in other current liabilities)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 12,362</u>	\$ <u> 12,362</u> (Concluded)
 <u>December 31, 2016</u>				
	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at FVTPL				
Derivative financial instruments	\$ -	\$ -	\$ 812	\$ 812
Non-derivative financial assets held for trading	<u> 15,041</u>	<u> -</u>	<u> -</u>	<u> 15,041</u>
	<u>\$ 15,041</u>	<u>\$ -</u>	<u>\$ 812</u>	<u>\$ 15,853</u>
Available-for-sale financial assets				
Listed securities - ROC	\$ 112,132	\$ -	\$ -	\$ 112,132
Unlisted securities - ROC	-	-	732,680	732,680
Mutual funds	<u> 731,135</u>	<u> -</u>	<u> -</u>	<u> 731,135</u>
	<u>\$ 843,267</u>	<u>\$ -</u>	<u>\$ 732,680</u>	<u>\$ 1,575,947</u>
Derivative financial assets for hedging				
Derivative financial instruments (included in other current assets)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 1,371</u>	\$ <u> 1,371</u>
<u>Financial liabilities</u>				
Derivative financial liabilities for hedging				
Derivative financial instruments (included in other current liabilities)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 16,546</u>	\$ <u> 16,546</u>

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

Financial Highlights

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

For the year ended December 31, 2017

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

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

For the year ended December 31, 2016

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

Financial Highlights

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

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

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

	December 31, 2017
EBIT ratio	8.96 times
EBITDA ratio	7.23-31.73 times
P/B ratio	1.66-3.11 times
Discount rate for lack of marketability	32.28%
	December 31, 2016
P/E ratio	13.83-21.65 times
P/B ratio	1.72-2.31 times
Discount rate for lack of marketability	20.00%

Financial Highlights

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

	December 31, 2017
EBIT ratio	
1 time increase	<u>\$ 63,057</u>
1 time decrease	<u>\$ (63,057)</u>
EBITDA ratio	
1 time increase	<u>\$ 75,149</u>
1 time decrease	<u>\$ (75,149)</u>
P/B ratio	
0.1 time increase	<u>\$ 70,398</u>
0.1 time decrease	<u>\$ (70,398)</u>
	December 31, 2016
P/E ratio	
1 time increase	<u>\$ 55,161</u>
1 time decrease	<u>\$ (55,161)</u>
P/B ratio	
0.1 time increase	<u>\$ 73,268</u>
0.1 time decrease	<u>\$ (73,268)</u>

c. Categories of financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 529,496	\$ 15,853
Derivative instruments in designated hedge accounting relationships (included in other current assets)	-	1,371
Loans and receivables (Note 1)	19,645,590	19,448,312
Available-for-sale financial assets (Note 2)	921,332	1,842,994
<u>Financial liabilities</u>		
Amortized cost (Note 3)	7,197,353	7,297,374
Fair value through profit or loss (FVTPL)		
Held for trading (included in other current liabilities)	2,954	-
Derivative instruments in designated hedge accounting relationships (included in other current liabilities)	12,362	16,546

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

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

Financial Highlights

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

d. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, accounts receivable, accounts payables and borrowings. Financial risks include market 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, interest rates and other price factors.

a) Foreign currency risk

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

Sensitivity analysis

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

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

	USD to NTD	
	For the Year Ended December 31	
	2017	2016
Loss	\$ (15,025)	\$ (8,512)
	JPY to NTD	
	For the Year Ended December 31	
	2017	2016
Gain (loss)	\$ (695)	\$ 200
Equity	\$ (9,969)	\$ (5,980)
	RMB to NTD	
	For the Year Ended December 31	
	2017	2016
Loss	\$ (21,934)	\$ (21,832)

Financial Highlights

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rate at the end of the reporting period were as follows:

	<u>December 31</u>	
	2017	2016
Cash flow interest rate risk		
Financial assets	\$ 13,974,008	\$ 14,349,092
Financial liabilities	854,933	857,977

Sensitivity analysis

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

If interest rates had been 0.25% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2017 and 2016 would increase/decrease by \$32,798 thousand and \$33,728 thousand, respectively.

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

c) Other price risk

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

Sensitivity analysis

The Group assesses equity price risk using sensitivity analysis.

The sensitivity analysis below was determined based on the exposure to equity price risk at the end of the reporting period. If equity prices had been 5% lower, the fair values of available-for-sale investments and held-for-trading investments would have decreased by \$27,599 thousand and \$42,915 thousand as of December 31, 2017 and 2016, respectively.

2) Credit risk

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

3) Liquidity risk

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

Financial Highlights

29. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

a. Names and categories of related parties

Name	Related-party Categories
Mitsubishi Motors Corporation (Mitsubishi Motors Corp.)	Investors that have significant influence over the Group
Mitsubishi Corporation (Mitsubishi Corp.)	Investors that have significant influence over the Group
Tai Yuen Textile Co., Ltd. (Tai Yuen Textile)	Investors that have significant influence over the Group
Le Wen Investment Co., Ltd.	Investors that have significant influence over the Group
Yulon Management Company Ltd. (Yulon Management)	Subsidiary of investor that have significant influence over the Group
Mitsubishi Corporation (Taiwan) Ltd.	Subsidiary of investor that have significant influence over the Group
Mitsubishi Corporation LT Taiwan Co., Ltd.	Subsidiary of investor that have significant influence over the Group
Mitsubishi Motors Philippines Corporation	Subsidiary of investor that have significant influence over the Group
Mitsubishi Motors Thailand	Subsidiary of investor that have significant influence over the Group
Mitsubishi Corporation Technos	Subsidiary of investor that have significant influence over the Group
Shye Shyang Mechanical Industrial Co., Ltd.	The Group is its major management authority
Uni-Calsonic Corp.	Associate
Yulon Motor Co., Ltd. (Yulon)	Associate
Fortune Motors Co., Ltd. (Fortune Motors)	Associate
ROC Spicer Ltd. (ROC-Spicer)	Associate
Uni Auto Parts Manufacture Co., Ltd.	Associate
Shung Ye Motor Co., Ltd. (Shung Ye Motor)	Associate
Hua-Chuang Automobile Information Technical Center Co., Ltd. (Hua-Chuang Automobile Information Technical Center)	Associate
Yulon IT Solutions Inc.	Associate
Sinjang Co., Ltd. (Sin Jiang Enterprises)	Associate
Tokio Marine Newa Insurance Co., Ltd.	Associate
South East (Fujian) Motor Corporation Ltd. (South East (Fujian) Motor)	Associate
Fujian Benz Automotive Co., Ltd.	Associate
Fuzhou Fushiang Motor Industrial Co., Ltd.	Associate
Xiamen King-Long Kian-Shen Frame	Associate
Hangzhou King-Long Kian-Shen Co., Ltd.	Associate
Hong Shuo Cultural Enterprises, Co., Ltd.	Associate
Hsiang Shuo Enterprises	Associate
Sinqual Technology Co., Ltd.	Associate

(Continued)

Financial Highlights

Name	Related-party Categories
Taiwan Acceptance Corporation (Taiwan Acceptance)	Associate
Yue Sheng Industrial Co., Ltd.	Associate
Luxgen Motor Co., Ltd. (Luxgen)	Associate
Yulon Nissan Motor Co., Ltd.	Associate
Y-Teks Co., Ltd.	Associate
Yulon Energy Service Co., Ltd.	Associate
Yuchia Motor Co., Ltd.	Associate
Yue Ki Industrial Co., Ltd. (Yue Ki)	Associate
Carplus Auto Leasing Corporation	Associate
eCBO Information Services Co., Ltd.	Associate
China Engine (Fujian)	Associate
Hsieh-Shin Motors Co., Ltd.	Associate
Yu Rich Financial Services Company	Associate
Visionary International Consulting Co., Ltd.	Associate
Automotive Research & Testing Center	Substantive related party
China Motor Indigenous Foundation	Substantive related party

(Concluded)

b. Operating transactions

1) Sales of goods

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Sales	Associates		
	Fortune Motors	\$ 18,800,506	\$ 18,045,415
	Shung Ye Motor	5,134,913	4,631,098
	Others	<u>1,745,047</u>	<u>1,946,969</u>
		25,680,466	24,623,482
	Investors and subsidiaries of the investors that have significant influence over the Group		
	Others	823,737	920,261
	The Group is its major management authority		
	Others	1,321	-
	Substantive related parties		
	Others	<u>7</u>	<u>-</u>
		<u>\$ 26,505,531</u>	<u>\$ 25,543,743</u>

Financial Highlights

2) Purchases of goods

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Purchases	Associates		
	South Eastern (Fujian) Motor	\$ 3,468,357	\$ 4,170,291
	Others	<u>2,198,331</u>	<u>2,129,413</u>
		5,666,688	6,299,704
	Investors and subsidiaries of the investors that have significant influence over the Group		
	Others	2,081,806	2,204,357
	The Group is its major management authority		
	Others	<u>374,513</u>	<u>372,218</u>
		<u>\$ 8,123,007</u>	<u>\$ 8,876,279</u>

3) Technical services expenses

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

4) Development expense

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Research and development expenses	Investors that have significant influence over the Group		
	Others	\$ 51,750	\$ 105,778
	Associates		
	Others	32	-
	Substantive related parties		
	Others	<u>22</u>	<u>-</u>
	<u>\$ 51,804</u>	<u>\$ 105,778</u>	

Financial Highlights

5) Other expense

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Selling and marketing expenses	Investors and subsidiaries of the investors that have significant influence over the Group		
	Others	\$ 92,413	\$ 74,010
	Associates		
	Other	<u>16,124</u>	<u>9,549</u>
		<u>\$ 108,537</u>	<u>\$ 83,559</u>
Research and development expenses	Substantive related parties		
	Others	\$ 55,008	\$ 59,895
	Associates		
	Other	<u>1,893</u>	<u>808</u>
		<u>\$ 56,901</u>	<u>\$ 60,703</u>

6) Acquisitions of property, plant and equipment

Line Items	Related Party Categories/Name	For the Year Ended December 31	
		2017	2016
Property, plant and equipment	Associates		
	Others	\$ 26,180	\$ 11,345
	The Group is its major management authority		
	Others	<u>4,500</u>	<u>6,290</u>
		<u>\$ 30,680</u>	<u>\$ 17,635</u>

7) Receivables from related parties

Line Items	Related Party Categories/Name	December 31	
		2017	2016
Trade receivables from related parties	Associates		
	Fortune Motors	\$ 944,038	\$ 653,947
	Shung Ye Motor	238,467	247,416
	Yulon	203,263	168,605
	Hua-Chuang Automobile	189,314	318,354
	Information Technical Center		
	Others	<u>112,615</u>	<u>108,280</u>
		1,687,697	1,496,602
	Investors and subsidiaries of the investors that have significant influence over the Group		
	Others	<u>16,206</u>	<u>81,242</u>
	<u>\$ 1,703,903</u>	<u>\$ 1,577,844</u>	

Financial Highlights

8) Prepayments

Line Items	Related Party Categories/Name	December 31		
		2017	2016	
Prepayments	Investors and subsidiaries of the investors that have significant influence over the Group	Mitsubishi Corp.	\$ 416,905	\$ 3,458
		Others	<u>28,155</u>	<u>8,139</u>
			<u>445,060</u>	<u>11,597</u>
	Associates	South Eastern (Fujian) Motor	91,367	167,628
		Others	<u>232</u>	<u>225</u>
			<u>91,599</u>	<u>167,853</u>
			<u>\$ 536,659</u>	<u>\$ 179,450</u>

9) Payables to related parties

Line Items	Related Party Categories/Name	December 31		
		2017	2016	
Trade payables to related parties	Associates	ROC-Spicer	\$ 93,771	\$ 93,504
		Others	<u>460,270</u>	<u>423,747</u>
			<u>554,041</u>	<u>517,251</u>
	Investors and subsidiaries of the investors that have significant influence over the Group	Mitsubishi Motors Corp.	114,418	119,661
		Yulon Management	92,216	53,349
		Others	<u>51,066</u>	<u>31,283</u>
			<u>257,700</u>	<u>204,293</u>
	The Group is its major management authority	Others	<u>63,643</u>	<u>69,526</u>
	Substantive related parties	Others	<u>11,006</u>	<u>16,927</u>
			<u>\$ 886,390</u>	<u>\$ 807,997</u>

Financial Highlights

10) Deposits in advance

Line Items	Related Party Categories/Name	December 31	
		2017	2016
Other current liabilities	Associates		
	Sin Jian Enterprises	\$ 20,492	\$ -
	Luxgen	-	36,520
	Others	<u>3,897</u>	<u>7,790</u>
		24,389	44,310
	Investors that have significant influence over the Group		
	Mitsubishi Motors Corp.	<u>-</u>	<u>24,610</u>
		<u>\$ 24,389</u>	<u>\$ 68,920</u>

11) Acquisitions of financial assets

For the year ended December 31, 2017

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

12) Other transactions with related parties

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

The outstanding payables to related parties had no guarantees and would be paid in cash. The Group receives guarantees of the receivables from part of the related parties. In addition, the Group did not recognize allowance for doubtful accounts during the years ended December 31, 2017 and 2016.

Transactions with related parties have the same terms for pricing, receipts and payments as of those for the third parties. Lease contracts with related parties are based on market conditions, and the terms of receipts or payments were the same as those for the third parties.

The Group signed contract with Mitsubishi Motors Corporation. Refer to Note 31.

c. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 134,492	\$ 156,267
Post-employment benefits	<u>2,705</u>	<u>3,092</u>
	<u>\$ 137,197</u>	<u>\$ 159,359</u>

The remuneration of directors, supervisors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

Financial Highlights

30. ASSETS PLEDGED AS COLLATERAL

The following assets were provided as collateral for bank borrowings, the tariff of importing vehicle parts and materials, escrows, government tenders and the deposit of project:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Property, plant and equipment	\$ 786,435	\$ 792,304
Pledged deposits (included in other current assets)	157,967	117,333
Investment properties	<u>52,323</u>	<u>52,323</u>
	<u>\$ 996,725</u>	<u>\$ 961,960</u>

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

- a. Guarantee notes amounted to \$5,929,038 thousand, which had been issued to financial institutions as collaterals for loans; unused letters of credit amounted to \$17,831 thousand.
- b. The Group entered into an agreement with Mitsubishi Motors Corporation as stated below:

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

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

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Foreign currency assets</u>			
Monetary items			
RMB	\$ 485,634	4.5650	\$ 2,216,921
USD	39,835	29.7600	1,185,494
JPY	2,643,053	0.2642	698,295

(Continued)

Financial Highlights

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Non-monetary items			
Joint ventures accounted for using the equity method			
RMB	\$ 1,199,135	4.5650	\$ 5,474,050
EUR	49,523	35.5700	1,761,531
<u>Foreign currency liabilities</u>			
Monetary items			
JPY	608,986	0.2642	160,894 (Concluded)

December 31, 2016

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Foreign currency assets</u>			
Monetary items			
RMB	\$ 486,198	4.6170	\$ 2,244,777
USD	28,778	32.2500	928,086
JPY	1,326,386	0.2756	365,552
Non-monetary items			
Joint ventures accounted for using the equity method			
RMB	1,051,012	4.6170	4,852,524
EUR	38,213	33.9000	1,295,405
<u>Foreign currency liabilities</u>			
Monetary items			
JPY	545,863	0.2756	150,440

For the years ended December 31, 2017 and 2016, net foreign exchange losses (realized and unrealized) were \$108,800 thousand and \$223,080 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions.

33. SEPARATELY DISCLOSED ITEMS

Excluding items disclosed in Notes 7, 9, 28 and Tables 1 to 8, there were no other separately disclosed items.

Financial Highlights

34. 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 vehicle manufacturing, channel and others.

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

	Segment Revenue		Segment Income or Loss	
	2017	2016	2017	2016
Vehicle manufacturing	\$ 33,628,634	\$ 34,267,814	\$ 4,646,978	\$ 4,315,378
Channel	5,509,577	6,520,698	199,387	(14,734)
Others	93,596	84,088	2,240	415
Adjustment and eliminations	(323,714)	(288,176)	-	-
	\$ 38,908,093	\$ 40,584,424	4,848,605	4,301,059
Administration cost and remunerations to directors and supervisors			(280,434)	(288,415)
Other non-operating income and expenses, net			307,836	72,908
Profit before income tax			\$ 4,876,007	\$ 4,085,552

Inter-segment transactions were accounted for according to market prices.

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and remunerations to directors and supervisors, interest income, dividend income, other income, gain on disposal of investments, gain (loss) on financial instruments at fair value through profit or loss, other expenses, foreign exchange losses, impairment loss, interest expense 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.

TABLE 1

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount (Notes 1 and 4)	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 3)
													Item	Value		
0	China Motor Corporation	Sino Diamond Motors	Other receivables	Yes	\$ 500,000	\$ 500,000	\$ 500,000	1.10	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 1,528,501	\$ 10,190,004
1	Hwa-Lin	Sichuan Huafeng Hanwei	Other receivables	Yes	67,667 (US\$ 1,200 thousand)	67,667 (US\$ 1,200 thousand)	35,712 (US\$ 1,200 thousand)	2.00	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	90,285 (US\$ 1,960 thousand)	90,285 (US\$ 1,960 thousand)	58,330 (US\$ 1,960 thousand)	2.00	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	136,829 (US\$ (3,570 thousand)	106,243 (US\$ 3,570 thousand)	104,606 (US\$ 3,515 thousand)	2.00	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Sales	Other receivables	Yes	26,021 (RMB 5,700 thousand)	-	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	50,215 (RMB 11,000 thousand)	31,955 (RMB 7,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
2	Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales	Other receivables	Yes	456,500 (RMB 100,000 thousand)	456,500 (RMB 100,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Tianjin Hwahong	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Sichuan Huafeng Hanwei	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004

(Continued)

Financial Highlights

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount (Notes 1 and 4)	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 3)
													Item	Value		
3	Sichuan Huafeng Hanwei	Sichuan Lingwei	Other receivables	Yes	\$ 45,650 (RMB 10,000 thousand)	\$ 45,650 (RMB 10,000 thousand)	\$ 9,587 (RMB 2,100 thousand)	5.40	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 1,528,501	\$ 10,190,004
		Sichuan Hauwei	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	1,100 (RMB 241 thousand)	5.40	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Tianjin Hwahong	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
4	Tianjin Hwarui	Tianjin Hwahong	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
5	Tianjin Hwahong	Tianjin Hwarui	Other receivables	Yes	228,250 (RMB 50,000 thousand)	228,250 (RMB 50,000 thousand)	82,627 (RMB 18,100 thousand)	5.40	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Sichuan Huafeng Hanwei	Other receivables	Yes	91,300 (RMB 20,000 thousand)	91,300 (RMB 20,000 thousand)	22,825 (RMB 5,000 thousand)	2.90	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huayi	Other receivables	Yes	68,475 (RMB 15,000 thousand)	68,475 (RMB 15,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Dongguan Huashun	Other receivables	Yes	68,475 (RMB 15,000 thousand)	68,475 (RMB 15,000 thousand)	22,825 (RMB 5,000 thousand)	2.90	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	136,950 (RMB 30,000 thousand)	136,950 (RMB 30,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
6	Dongguan Huayi	Dongguan Huashun	Other receivables	Yes	228,250 (RMB 50,000 thousand)	228,250 (RMB 50,000 thousand)	107,278 (RMB 23,500 thousand)	5.04	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004

(Continued)

Financial Highlights

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Year (Note 1)	Ending Balance (Note 1)	Actual Borrowing Amount (Notes 1 and 4)	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 2)	Aggregate Financing Limit (Note 3)
													Item	Value		
7	Dongguan Huashun	Dongguan Huayi	Other receivables	Yes	\$ 45,650 (RMB 10,000 thousand)	\$ 45,650 (RMB 10,000 thousand)	\$ -	-	Short-term financing	\$ -	Working capital	\$ -	-	\$ -	\$ 1,528,501	\$ 10,190,004
		Sichuan Huafeng Hanwei	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Tianjin Hwahong	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
		Guangzhou Huayou Motor Maintenance	Other receivables	Yes	45,650 (RMB 10,000 thousand)	45,650 (RMB 10,000 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004
8	GH	Gatech Suzhou	Other receivables	Yes	44,640 (US\$ 1,500 thousand)	44,640 (US\$ 1,500 thousand)	-	-	Short-term financing	-	Working capital	-	-	-	1,528,501	10,190,004

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

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

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

Note 4: Eliminated.

(Concluded)

Financial Highlights

TABLE 2

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

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

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

CHINA MOTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2017

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

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

(Continued)

Financial Highlights

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

Note 1: Eliminated.

Note 2: See Tables 6 and 7 for the information of investments in subsidiaries and associates.

(Concluded)

CHINA MOTOR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

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

(Continued)

Financial Highlights

Seller/Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total (Note 2)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total (Note 2)	
COC	China Motor Corporation (Note 1)	Parent company	Sale	\$ (380,925)	(24)	Collect after 45 days of the month of delivery	\$ -	-	\$ 61,323	14	
	Yulon	Equity-method investee	Sale	(354,278)	(23)	Collect after 45 days of the month of delivery	-	-	93,846	21	
	Luxgen	Equity-method investee's subsidiary	Sale	(141,873)	(9)	Collect after 45 days of the month of delivery	-	-	1,931	-	
	Yulon	Equity-method investee	Purchase	133,772	20	Net 60 days from the end of the month of when invoice is issued	-	-	(6,954)	(3)	
	Y. M. Hi-Tech (Note 1)	Subsidiary	Purchase	108,033	16	Net 50 days from the end of the month of when invoice is issued	-	-	(16,247)	(7)	
Y. M. Hi-Tech	Yulon	Equity-method investee	Sale	(139,347)	(42)	Collect after 45 days of the month of delivery	-	-	24,365	48	
	COC (Note 1)	Parent company	Sale	(108,033)	(33)	Net 50 days from the end of the month of when invoice is issued	-	-	16,247	32	
	Yulon	Equity-method investee	Purchase	141,110	45	Net 75 days from the end of the month of when invoice is issued	-	-	(63,124)	(45)	
	China Motor Corporation (Note 1)	Parent company	Sale	108,656	34	Pay after 90 days of the month of delivery	-	-	(40,672)	(29)	
China Engine	Hua-Chuang Automobile Information Technical Center	Equity-method investee	Sale	(572,881)	(70)	Net 90 days from the end of the month of when invoice is issued	-	-	187,485	78	
	Yulon	Equity-method investee	Sale	(159,902)	(20)	Collect after 45 days of the month of delivery	-	-	43,868	18	
Sichuan Hwafeng Hanwei	South Eastern (Fujian) Motor	Equity-method investee	Purchase	851,720	100	Cash before delivery	-	-	-	-	
Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales (Note 1)	Subsidiary	Sale	(474,679)	(85)	Collect after 45 days of the month of delivery	-	-	77,724	78	
	South Eastern (Fujian) Motor	Equity-method investee	Purchase	544,997	98	Cash before delivery	-	-	(222)	(1)	
Guangzhou Huayou Motor Sales	Guangzhou Huayou Motor Maintenance (Note 1)	Parent company	Purchase	474,679	93	Pay after 45 days of the month of delivery	-	-	(77,724)	(97)	
Tianjin Huahong	South Eastern (Fujian) Motor	Equity-method investee	Purchase	694,186	100	Cash before delivery	-	-	(436)	(1)	
Donggun Huashun	South Eastern (Fujian) Motor	Equity-method investee	Purchase	1,326,721	97	Cash before delivery	-	-	(1,033)	(1)	

Note 1: Eliminated.

Note 2: The proportion of the individual company's total purchase (sale) or total receivable (payable).

(Concluded)

CHINA MOTOR CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

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

Financial Highlights

TABLE 6

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

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

(Continued)

Financial Highlights

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

Note 1: Eliminated.

Note 2: During the preparation of consolidated financial statement, price making \$75,455 thousand of intra-group transaction had been eliminated.

Note 3: During the preparation of consolidated financial statement, loss on disposal \$22,538 thousand of intra-group transaction had been eliminated.

Note 4: During the preparation of consolidated financial statement, side stream transaction \$37,064 thousand had been eliminated.

Note 5: During the preparation of consolidated financial statement, gain on disposal \$31 thousand of intra-group transaction had been eliminated.

Note 6: During the preparation of consolidated financial statement, side stream transaction \$3,285 thousand had been eliminated.

(Concluded)

Financial Highlights

TABLE 7

CHINA MOTOR CORPORATION AND SUBSIDIARIES

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

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

(Continued)

Financial Highlights

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

(Continued)

Financial Highlights

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

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

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

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

Note 4: During the preparation of consolidated statements, the unrealized profit of \$12,283 thousand had been eliminated.

Note 5: Eliminated.

Note 6: The ownership of Jiang Su Hui Feng Vehicle Service was sold in March 2016 and transferred in March 2017.

Note 7: The cancellation procedures of Sichuan Houwei are processing.

Note 8: The ownership of Zhengzhou Tooling & Stamping was sold in September 2017.

(Concluded)

CHINA MOTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands of New Taiwan Dollars)

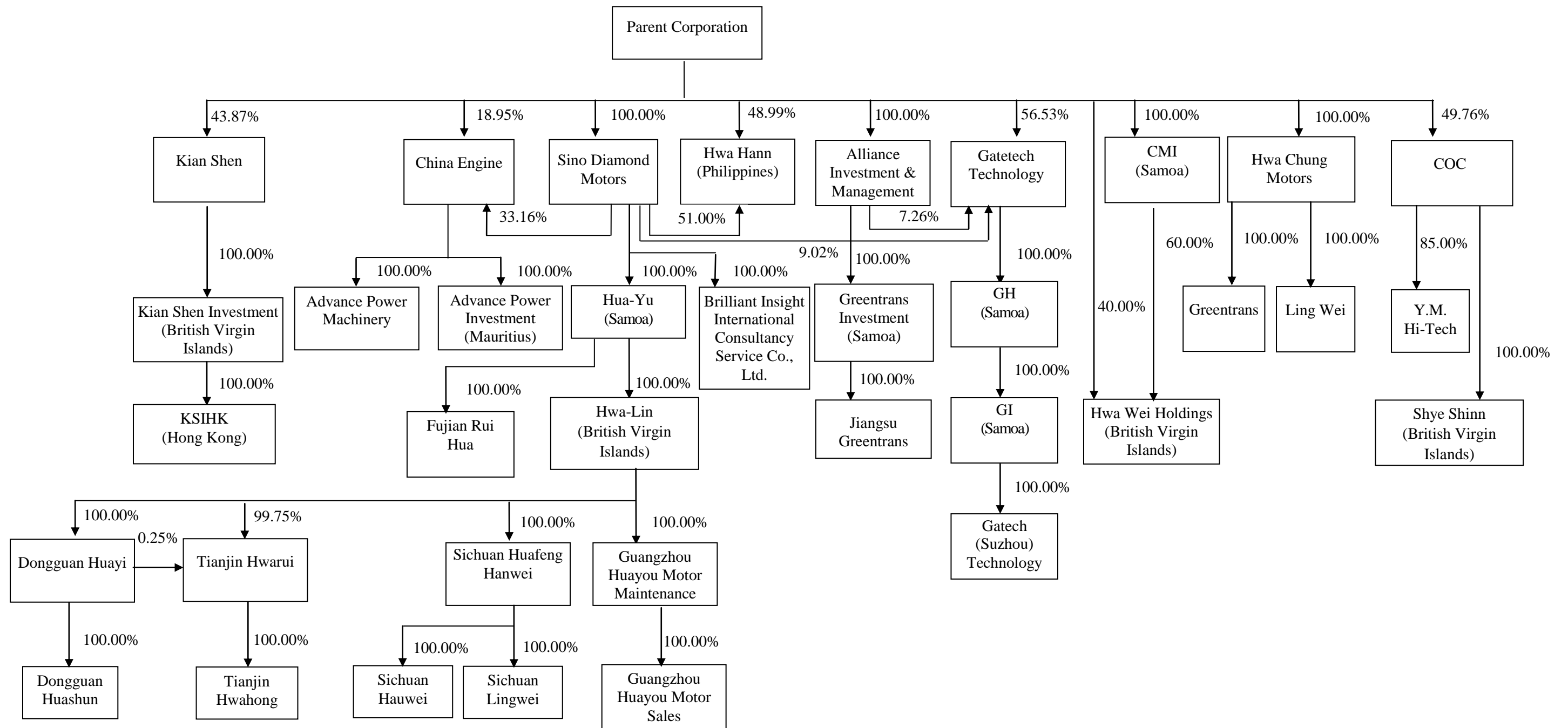
No.	Company Name	Related Party	Relationship	Transaction Details			
				Financial Statement Accounts	Amount	Payment Terms	% to Total Sales or Assets
0	China Motor Corporation	Kian Shen	Subsidiary	Cost of goods sold	\$ 613,600	The prices and payment terms for related-party transactions were based on market price which are not significantly different from those to third parties.	1.58
		Sino Diamond Motors	Subsidiary	Other receivables	500,000	The prices and payment terms were based on agreements.	0.79
		COC	Subsidiary	Cost of goods sold	380,925	The prices and payment terms for related-party transactions were based on market price which are not significantly different from those to third parties.	0.98
		Gatetech Technology	Subsidiary	Debt investments with no active market - non-current	150,000	The prices and payment terms were based on agreements.	0.24
		Sino Diamond Motors	Subsidiary	Other operating revenue	152,280	The prices and payment terms for related-party transactions were based on market price which are not significantly different from those to third parties.	0.39
		Y. M. Hi-Tech	Subsidiary	Sales	108,656	The prices and payment terms for related-party transactions were based on market price which are not significantly different from those to third parties.	0.28
1	Hwa-Lin	Dongguan Huayi	Subsidiary	Other receivables	104,606	The prices and payment terms were based on agreements.	0.16
2	COC	Y. M. Hi-Tech	Subsidiary	Cost of goods sold	108,033	The prices and payment terms were based on agreements.	0.28
3	Guangzhou Huayou Motor Maintenance	Guangzhou Huayou Motor Sales	Subsidiary	Sales	474,679	The prices and payment terms were based on agreements.	1.22
4	Dongguan Huayi	Dongguan Huashun	Subsidiary	Other receivables	107,278	The prices and payment terms were based on agreements.	0.17

Note 1: Eliminated.

Note 2: This table includes transactions for amounts over one hundred million.

CHINA MOTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY INVESTMENT RELATIONSHIPS AND RATE OF SHARE HELD FRAMEWORK
DECEMBER 31, 2017



V. Financial Statements and Appendix of the Corporation

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
China Motor Corporation

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Evaluation of Write-down of Inventory

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

Financial Highlights

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

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

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

Revenue Recognition

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

Our audit procedures in respect of revenue recognition included:

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

Other Matter

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

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

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

Financial Highlights

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

Financial Highlights

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 26, 2018

The logo for Deloitte & Touche, featuring the company name in a stylized, handwritten font.

Notice to Readers

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

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

Financial Highlights

CHINA MOTOR CORPORATION

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

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

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

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

Financial Highlights

CHINA MOTOR CORPORATION

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

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

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION

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

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

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

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

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Financial Highlights

CHINA MOTOR CORPORATION

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

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

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

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

Financial Highlights

CHINA MOTOR CORPORATION

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

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

(Continued)

Financial Highlights

CHINA MOTOR CORPORATION

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

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

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

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

(Concluded)

CHINA MOTOR CORPORATION

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

1. GENERAL INFORMATION

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

2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Financial Highlights

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

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

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

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

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

- 1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

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

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

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

Financial Highlights

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

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

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

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

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

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

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

Financial Highlights

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

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

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

Hedge accounting

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

Financial Highlights

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

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

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

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

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

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

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

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

Note 2: The FSC permits the election for early adoption of the amendments starting from January 1, 2018.

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

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

Financial Highlights

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

IFRS 16 "Leases"

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

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

Financial Highlights

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

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

Current assets include:

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

Current liabilities include:

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

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

d. Foreign currencies

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

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

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

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

Financial Highlights

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

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

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

e. Inventories

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

f. Investments accounted for using equity method

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

1) Investment in subsidiaries

Subsidiary is an entity that is controlled by the Corporation.

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

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

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

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

Financial Highlights

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

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

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

2) Investment in associates and joint ventures

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

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

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

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

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

Financial Highlights

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

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

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

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

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

g. Property, plant and equipment

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

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

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

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

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h. Investment properties

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

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

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

i. Intangible assets

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

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

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

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

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

j. Impairment of tangible and intangible assets

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

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

Financial Highlights

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

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at fair value through profit or loss

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

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

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

ii. Available-for-sale financial assets

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

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

Financial Highlights

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

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

iii. Loans and receivables

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

b) Impairment of financial assets

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

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

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

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

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

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

Financial Highlights

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

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

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

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

c) Derecognition of financial assets

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

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

2) Derivative financial instruments

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

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

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

Financial Highlights

l. Hedge accounting

The Corporation designates certain hedging instruments as cash flow hedges.

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

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

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

m. Provisions

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

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

n. Revenue recognition

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

1) Sale of goods

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

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

Financial Highlights

2) Rendering of services

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

3) Royalties

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

4) Dividend and interest income

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

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

o. Government grants

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

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

p. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

Financial Highlights

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

q. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred taxes for the year

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

Financial Highlights

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Write-down of Inventory

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

6. CASH AND CASH EQUIVALENTS

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

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

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

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

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

Financial Highlights

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

December 31, 2017

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

December 31, 2016

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

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

December 31, 2017

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

December 31, 2016

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

Financial Highlights

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGING

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

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

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

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

Financial Highlights

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

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

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

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

The aging of receivables was as follows:

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

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

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

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

Financial Highlights

11. INVENTORIES

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

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

12. FINANCIAL ASSETS MEASURED AT COST

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

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

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

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

Financial Highlights

13. DEBT INVESTMENTS WITH NO ACTIVE MARKET

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

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

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

- a. Investments in subsidiaries

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

(Continued)

Financial Highlights

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

(Concluded)

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

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

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

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

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

b. Investments in associates

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

Financial Highlights

1) Material associates

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

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

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

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

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

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

Above associates are accounted for using the equity method.

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

Yulon

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

Financial Highlights

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

2) Aggregate information of associates that are not individually material

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

All the associates are accounted for using the equity method.

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

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

c. Investments in joint ventures

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

Aggregate information of joint ventures that are not individually material

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

All joint ventures are accounted for using the equity method.

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

Financial Highlights

15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Financial Highlights

16. INVESTMENT PROPERTIES

Cost

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

Balance at December 31, 2016	<u>\$ 1,291,013</u>
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Accumulated depreciation and impairment

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

Balance at December 31, 2016	<u>\$ 450,936</u>
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Carrying amounts at December 31, 2016	<u>\$ 840,077</u>
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Cost

Balance at January 1, 2017 and December 31, 2017	<u>\$ 1,291,013</u>
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Accumulated depreciation and impairment

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

Balance at December 31, 2017	<u>\$ 469,555</u>
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Carrying amounts at December 31, 2017	<u>\$ 821,458</u>
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The investment properties held by the Corporation were depreciated over their estimated 10-60 years useful lives, using the straight-line method.

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

Financial Highlights

17. OTHER PAYABLES

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

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

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

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

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

Financial Highlights

Movements in net defined benefit liabilities were as follows:

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

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

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

Financial Highlights

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

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

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

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

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

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

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

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

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

Financial Highlights

19. EQUITY

a. Ordinary shares

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

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

b. Capital surplus

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

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

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

c. Retained earnings and dividends policy

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

Financial Highlights

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

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

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

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

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

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

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

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

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

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

Financial Highlights

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

d. Special reserves

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

e. Other equity items

1) Exchange differences on translating foreign operations

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

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

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

3) Total loss on effective portion of cash flow hedges

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

Financial Highlights

20. NET PROFIT

Net profit concludes as follow:

a. Depreciation and amortization

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

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

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

c. Employee benefits expense

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

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

Financial Highlights

d. Employees' compensation and remuneration of directors and supervisors

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

Accrual rate

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

Amount

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

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

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

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

21. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of tax expense were as follows:

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

Financial Highlights

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

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

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

In February 2018, it was announced that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 are expected to be adjusted and increase by \$55,112 thousand, in 2018.

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

b. Income tax recognized in other comprehensive income

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

c. Current tax assets and liabilities

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

Financial Highlights

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

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

For the year ended December 31, 2016

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

Financial Highlights

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

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

- f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2017 comprised:

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

- g. Integrated income tax

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

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

- h. Income tax assessments

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

22. EARNINGS PER SHARE

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

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

Net Profit for the Year

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

Financial Highlights

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

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

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

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

23. CAPITAL MANAGEMENT

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

24. FINANCIAL INSTRUMENTS

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

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

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

- 1) Fair value hierarchy

December 31, 2017

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

(Continued)

Financial Highlights

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

Financial Highlights

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

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

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

For the year ended December 31, 2017

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

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

Financial Highlights

For the year ended December 31, 2016

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

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

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

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

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

Financial Highlights

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

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

	December 31, 2017
EBIT ratio	
1 time increase	<u>\$ 63,057</u>
1 time decrease	<u>\$ (63,057)</u>
EBITDA ratio	
1 time increase	<u>\$ 75,149</u>
1 time decrease	<u>\$ (75,149)</u>
P/B ratio	
0.1 time increase	<u>\$ 70,398</u>
0.1 time decrease	<u>\$ (70,398)</u>
	December 31, 2016
P/E ratio	
1 time increase	<u>\$ 55,161</u>
1 time decrease	<u>\$ (55,161)</u>
P/B ratio	
0.1 time increase	<u>\$ 73,268</u>
0.1 time decrease	<u>\$ (73,268)</u>

c. Categories of financial instruments

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

Financial Highlights

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

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

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

d. Financial risk management objectives and policies

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

1) Market risk

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

a) Foreign currency risk

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

Sensitivity analysis

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

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

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

Financial Highlights

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

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

b) Interest rate risk

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

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

Sensitivity analysis

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

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

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

c) Other price risk

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

Sensitivity analysis

The Corporation assesses equity price risk using sensitivity analysis.

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

Financial Highlights

2) Credit risk

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

3) Liquidity risk

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

25. TRANSACTIONS WITH RELATED PARTIES

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

a. Names and categories of related parties

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

(Continued)

Financial Highlights

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

(Concluded)

Financial Highlights

b. Operating transactions

1) Sales of goods

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

2) Purchases of goods

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

3) Technical services expenses

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

Financial Highlights

4) Development expenses

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

5) Acquisitions of property, plant and equipment

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

6) Disposals of property, plant and equipment

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

Financial Highlights

7) Receivables from related parties

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

8) Loans to related parties

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

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

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

9) Prepayments

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

Financial Highlights

10) Payables to related parties

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

11) Deposits in advance

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

12) Acquisitions of financial assets

For the year ended December 31, 2017

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

Financial Highlights

13) Other transactions with related parties

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

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

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

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

c. Compensation of key management personnel

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

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

26. ASSETS PLEDGED AS COLLATERAL

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

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

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

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

Financial Highlights

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

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

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

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
RMB	\$ 290,767	4.5650	\$ 1,327,349
USD	4,521	29.7600	134,543
JPY	503,925	0.2642	133,137
Non-monetary items			
Joint venture accounted for using equity method			
EUR	49,523	35.5700	1,761,531
<u>Financial liabilities</u>			
Monetary items			
JPY	597,701	0.2642	157,913

December 31, 2016

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

(Continued)

Financial Highlights

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

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

29. SEPARATELY DISCLOSED ITEMS

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

Financial Highlights

VI. Financial Difficulties during the 2017 Calendar Year and up to March 31, 2018:

None

Review of Financial Status, Operating Results, and Risk Management

I. Analysis of Financial Status

Brief Presentation on Financial Status Analysis

Unit: NT\$ thousands

Item \ Year	December 31, 2017	December 31, 2016	Variation	
			Amount	%
Current assets	24,571,917	24,001,876	570,041	2.37
Long-term Investments	30,156,745	29,528,944	627,801	2.13
Property, plant and equipment	6,543,043	6,432,443	110,600	1.72
Intangible assets	154,628	142,571	12,057	8.46
Other assets	2,102,593	2,073,639	28,954	1.40
Total assets	63,528,926	62,179,473	1,349,453	2.17
Current liabilities	7,787,062	7,877,685	(90,623)	(1.15)
Non-current liabilities	1,284,902	1,580,426	(295,524)	(18.70)
Total liabilities	9,071,964	9,458,111	(386,147)	(4.08)
Capital stock	13,840,508	13,840,508	-	-
Capital surplus	6,407,340	6,407,220	120	-
Retained earnings	30,434,088	28,619,636	1,814,452	6.34
Other equity	268,085	554,291	(286,206)	(51.63)
Treasury stock	-	-	-	-
Equity attributable to owners of the Corporation	50,950,021	49,421,655	1,528,366	3.09
Non-Controlling Interests	3,506,941	3,299,707	207,234	6.28
Total equity	54,456,962	52,721,362	1,735,600	3.29
Analysis of Variation (for variation over 20% in the latest 2 years and with an amount up to NT\$10 million): The decrease in "Other equity" were mainly due to the recognition of "Exchange differences on translating foreign operations".				

Review of Financial Status, Operating Results, and Risk Management

II. Analysis of Operating Results

Brief Presentation on Operating Performance Analysis

Unit: NT\$ thousands

Item \ Year	2017	2016	Increase (Decrease)	Ratio of Variation%
Operating Revenue	38,908,093	40,584,424	(1,676,331)	(4.13)
Operating costs	32,396,813	33,403,692	(1,006,879)	(3.01)
Gross Profit	6,511,280	7,180,732	(669,452)	(9.32)
Realized Gross Profit	6,521,213	7,172,452	(651,239)	(9.08)
Operating expenses	4,086,653	4,580,559	(493,906)	(10.78)
Profit from Operations	2,434,560	2,591,893	(157,333)	(6.07)
Non-operating income and expenses	2,441,447	1,493,659	947,788	63.45
Continuously operating divisions' profit before income tax	4,876,007	4,085,552	790,455	19.35
Income tax expense	(338,656)	(493,192)	154,536	(31.33)
Cautiously operating divisions' net profit	4,537,351	3,592,360	944,991	26.31
Net Profit from discontinued operations	2,839	5,012	(2,173)	(43.36)
Net profit of the year	4,540,190	3,597,372	942,818	26.21
Other comprehensive income (Loss) (after-tax)	(389,392)	(1,370,347)	980,955	(71.58)
Total Comprehensive income	4,150,798	2,227,025	1,923,773	86.38
<p>Analysis of Variation (for a variation over 20% in the latest 2 years with an amount up to NT\$10 million):</p> <ol style="list-style-type: none"> 1. The increase in "Non-operating income and expenses" were mainly due to the raise of "Share of profit of associates and joint ventures accounted for using the equity method" and "Gain on disposal of investments". 2. The decrease in "Income tax expense" were mainly due to the decrease of profit from Operations. 3. The increase in "Cautiously operating divisions' net profit" and "Net profit" was mainly due to the increase of "Non-operating income". 4. The decrease in "Other comprehensive income (Loss) (after-tax)" was mainly due to the decrease of "Share of profit of associates and joint ventures accounted for using the equity method", "Remeasurement of defined benefit plans" and "Exchange differences on translating foreign operations". 5. The increase in "Total Comprehensive income" was mainly due to the increase of "Net profit" and above-mentioned decrease in "Other comprehensive income (Loss) (after-tax)" 				

Review of Financial Status, Operating Results, and Risk Management

III. Analysis of Cash Flow

(I) Liquidity analysis for the latest two years

Item \ Year	2017	2016	Ratio of Increase (Decrease)
Cash flow ratio(%)	22.28	41.31	(19.03)
Cash flow adequacy ratio(%)	92.85	87.44	5.41
Cash flow reinvestment ratio(%)	(0.58)	1.44	(2.02)

Analysis of the Ratio of Increase/Decrease:

- The decrease in "Cash flow ratio" were mainly due to the raise in "prepayments" and "Financial assets held for trading", resulting in decrease on "Cash generated from operations".
- The decrease in "Cash flow reinvestment ratio" were mainly due to the decrease in "Cash generated from operations" and raise in "Cash dividends paid".

(II) Liquidity analysis of cash for the next year

Unit: NT\$ thousands

Beginning cash balance	Net cash generated expected from operating activities of the whole year	Expected cash outflows from Investing and Financing activities the whole year	Expected remaining cash (shortage)	Expected measures to be taken for cash shortage	
				Investment plan	Financial plan
10,463,977	2,337,718	5,236,820	7,564,875	-	-

1. Analysis of variation in cash flows for the next year:

- Operating activities: Expected cash inflows from operating income NT\$ 2,337,718 thousand.
- Investing activities: Expected net cash outflows from investing activities NT\$ 3,245,528 thousand.
- Financing activities: Expected net cash outflows from financing activities NT\$ 1,991,292 thousand.

2. Expected measures to be taken for cash shortage and liquidity analysis: Not applicable

IV. Major Capital Expenditure

The important capital expenditure was NT\$ 1,149,990 thousand in 2017. Its effects are expected as follows:

- Introducing new products: The market share of the Corporation's products will increase and turnover and sales will rise.
- Introducing parts and components: Self-manufacturing rate of parts will rise and production cost will be reduced.
- Strengthening sales: The reputation of the Corporation and its products will be developed and the quality of after-sale service will be enhanced to facilitate sales.

Review of Financial Status, Operating Results, and Risk Management

- (IX) Increasing productivity: The equipment for production lines will be upgraded and automatized and layout will be rationalized to increase productivity and enhance technology.
- (X) Enhancing quality: Cooperative companies will increase their ability in quality assurance. Quality assurance systems will be operated more effectively to eliminate PONC (Price of Non Conformance) and have customers be more satisfied with the quality of products. Source management and fool-proofing measures will be conducted more effectively.
- (XI) Improving work environment: Computer equipment will be upgraded. Old office equipment and company vehicles will be replaced with new ones. Office planning construction and air quality will be improved. Pollution prevention equipment will be installed.

V. Re-investment policies in last year and major causes for profit/loss and improvement, and investment plans in the coming year

Looking back in 2017, re-investments were mainly placed in automobile-related business. In return of investment, the overall auto market (including trucks) in Taiwan approximately have a small growth then the last year. Therefore, there was a slight profit growth for both upstream and downstream suppliers of the auto industry in Taiwan. And the profit of re-investment in China, especially SEM with hot sale DX3 model and Fujian Benz Automotive released New Vito. Therefore, the recognized overall profit from re-investments in 2017 was NT\$2,075 million, 77% up from NT\$1,170 million in 2016.

- (I) About the 2017 economic growth of China by 6.9% was the first rise during the last 7 years, the total car sale in 2017 was 28.88 million cars, 3.0% up from 2016. In re-investments in China, SEM, a CMC re-invested enterprise, continued with the dual brand marketing strategy, due to hot sale of new DX7 and DX3 model, 155 thousand cars were sold in 2017. As for Fujian Benz Automotive, a total of 22.4 thousand cars were sold in 2017, nearly 80% up from 2016.
- (II) The green energy industry is one of our key investments in the future. In the 2-wheeled business, the Corporation launching the first e-scooter EM50 in 2010, then continued to

Review of Financial Status, Operating Results, and Risk Management

launch the EM80 and EM100 in 2012 and 2013. In 2013, the Corporation launched the EM25 with five-free features (registration-free, driver license free, fuel-tax free, inspection free, and fuel-free). The emoving Shine electric bike with a brand new appearance was launched in November 2017. Last year (2017), 6,770 were licensed, and the cumulative market share reached 35%.

In January this year (2018), the initial batch of emoving Post, our first heavyweight commercial electric scooter, was delivered to Chunghwa Post for postal use. A brand new type of general heavyweight electric scooter is expected to be launched next year (2019) to expand our market share. We provide a fast and slow mode for charging outside and inside the home to lower the costs of consumer usage. Regarding the expansion of our channels, we plan to increase the number of our specialty and flagship stores to provide consumers with high-quality services and better experience. We seek to meet consumer demands with a comprehensive range of products and services.

VI. Risk Management

(I) Impact on profits/losses of Interest rate volatility, Exchange rate volatility and Inflation and the Future Countermeasures:

Changes of interest rates mainly affect our financial assets. If the interest rate increases by 0.25%, NT\$26,366 thousand will be added to our net profit before tax for 2017.

We hold some assets and liabilities in foreign currencies. As a result, any change in the exchange rates will lead to decreased values of our assets in foreign currencies and exposure to risks of fluctuating cash flow in the future. According to the estimated data in our operating results for 2017, if the NT dollar appreciates 1% against the US dollar, our net profit before tax will decrease by NT\$638 thousand; if the NT dollar appreciates 1% against the Japanese yen, our net profit before tax will increase by NT\$1,492 thousand; if the NT dollar appreciates 1% against the RMB, our net profit before tax will decrease by NT\$13,077 thousand.

Although the US Federal Reserve has started to reduce its balance sheet since last year, the European Central Bank and Bank of Japan continue to maintain a loose monetary policy to boost the economy and raise the inflation target. The market expectation is that the European Central Bank and Bank of Japan may begin to tighten monetary policy later next year.

Review of Financial Status, Operating Results, and Risk Management

Deflation affects consumer spending, and the central banks of countries worldwide either lowered their interest rates or adopted other kinds of loose monetary policy to tackle the sluggish economy. High inflation, high deflation or negative interest rate will reduce market efficiency and interfere on savings and investment decisions to discourage macroeconomics and microeconomics and bring adverse effect to our operating cost. Therefore, the Corporation will continue to watch closely the trend of inflation or deflation, so as to adjust our products and services in response.

(II) Risks Associated with High-risk/High-leveraged Investment; Lending, Endorsement and Guarantees; and Derivative Transactions:

1. The Corporation does not engage in high risk or high leveraged investments.
2. The funds loaned to others, endorsement guarantee and derivative product transactions are made in accordance with the policy provided in the Procedure of Loaning of Funds and Procedure of Endorsements/Guarantees, and the Procedure of Engaging for Derivative Trading.

(III) Future R&D Plans and Expected R&D Spending:

The task of CARTEC, the Corporation's Research and Development Center, and the product lines are developed pursuant to the guiding principle made by the Corporation. Technological research and development is executed to (1) develop vehicle-related technologies that meet the needs of the market and the requirements of the law, (2) develop the systemic integrating ability of differentiation and high value added products, (3) modify products to meet the demand by different foreign regions, (4) develop new energy and energy-saving related products, and focus on advanced power system, electric control system, and the design integration and analysis and verification technology for automobile electronic (5) develop green energy two-wheeler products with advanced characteristics.

The R&D expenses of the Corporation estimates NT\$1,837 million in 2018.

(IV) Effects of and Response to Changes of Government Policies and Regulatory Environment:

The Corporation consistently paid attention to any change in laws, statutes and policies that might influence the business or operation of this Corporation. No change in domestic and foreign policies and laws has had significant influence on the financial business of the Corporation since 2017.

Review of Financial Status, Operating Results, and Risk Management

(V) Effects of and Response to Changes in Technology and Industry: None

(VI) Effects of and Response to Changes in Corporate Image on Company's Crisis Management:
None

(VII) Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans:
None

(VIII) Expected Benefits from, Risks Relating to and Response to Capacity Expansion: None

(IX) Risks Associated with Sales and Purchase Concentration:

The Corporation purchases from hundreds of cooperative suppliers instead of from only particular ones. Though the Corporation sells products through only two main distributors, yet it is one of the characteristics of this industry that the products are distributed by limited distributors. The Corporation has also entered into a contract with each distributor and has stock equity of each distributor. The Corporation has worked the distributors for years. There is no risk of centralized sales.

(X) Effects of, Risks Relating to and Response to Sales of Significant Numbers of Shares by Directors, and/ or Major Shareholders Who Own 10% or More of the Corporation's Total Outstanding Share : None

(XI) Effects of, Risks Relating to and Response to Changes in Control over the Corporation:
None

(XII) Risks Associated with Litigation or Non-litigation Matters : None

(XIII) Other Risks: None

VII. Other Important Matters: None

Special Disclosure

I. Summary of Affiliated Companies

(I) Consolidated business report of affiliated enterprises

1. Organization charts of affiliated enterprises: Please see page 194.
2. Basic information of each affiliated enterprise

December 31, 2017

Unit: NT\$ thousands

No.	Name of Company	Date of Establishment	Address	Paid-in Capital			Major business or production item
				Currency	Amount	Exchange Rate	
1	Kian Shen Corporation	May 30, 1963	No. 100, Xinjiang Road, Yangmei City, Taoyuan County	NT	\$ 734,001	1.000	Manufacturing of large car racks and molds
2	Kian Shen Investment Co., Ltd.	March 13, 2002	Trust Net Chambers, P. O. Box 3444, Road Town, Tortola, British Virgin Island	US	\$ 10,296	29.76	Investment in production and service businesses
3	Kian Shen Investment Hong Kong Co. Limited	November 15, 2007	15/F.,BOC Group Life Assurance Tower,136 Des Voeux Road Central,Central, HK	US	\$ 25,907	29.76	General investment
4	COC Tooling & Stamping Co., Ltd.	December 2, 1982	No. 412, Sec. 2, Renhe Road, Daxi Township, Taoyuan County	NT	\$ 674,591	1.000	Molds, examination tools and clamping apparatus for cars
5	Y. M. Hi-Tech Industry Ltd.	October 1, 2003	No. 412, Sec. 2, Renhe Road, Daxi Township, Taoyuan County	NT	\$ 50,000	1.000	Steel cutting
6	Shye Shinn Corporation(British Virgin Islands)	January 26, 1996	Tortola, British Virgin Island	US	\$ 968	29.76	General investment
7	China Engine Corporation	July 24, 1995	No. 3, Chiniudiao, Neighborhood 30, Hengfeng Village, Dayuan Township, Taoyuan County	NT	\$ 1,689,000	1.000	Manufacture of car engines and accessories
8	Advance Power Machinery Co., Ltd.	June 3, 2008	No. 39-1, Bogongkeng, Xihu Village, Sanyi Township, Miaoli County	NT	\$ 5,000	1.000	Manufacture of cars and accessories
9	Advance Power Investment Co., Ltd.	April 26, 2002	2nd Floor, Felix House, 24 Dr. Joseph Riviere Street, Port Louis, Mauritius	US	\$ 3,750	29.76	Reinvestment and general sales business
10	Gatetech Technology Inc.	May 20, 1988	No. 1-1, Datong First Road, Guanyin Industrial Zone, Guanyin Township, Taoyuan County	NT	\$ 437,372	1.000	Aluminum-magnesium alloy foundry industry
11	Gatech Holding Co. Ltd.	January 22, 2002	TrustNet Chambers, Lotemau Centre,P.O.Box 1225,Apia, Samoa	US	\$ 20,130	29.76	General investment

(To be continued)

Special Disclosure

(Continued)

No.	Name of Company	Date of Establishment	Address	Paid-in Capital			Major business or production item
				Currency	Amount	Exchange Rate	
12	Gatech International Co. Ltd	January 22, 2002	TrustNet Chambers, Lotemau Centre,P.O.Box 1225,Apia, Samoa	US	\$ 20,268	29.76	General investment
13	Gatetech (Suzhou) Technology Inc.	June 27, 2002	No. 6, Yanshan W. Road, Chengqu Industrial Park, Chengxiang Township, Taicang City, Jiangsu Province, Chian	US	\$ 24,300	29.76	Aluminum-magnesium alloy foundry industry
14	Hwa Chung Motor Co., Ltd.	February 15, 2006	No. 618, Xiucai Road, Yangmei City, Taoyuan County	NT	\$ 87,900	1.000	Sale and production of cars and accessories
15	GreenTrans Co., Ltd.	December 24, 2009	11F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipci City	NT	\$ 10,000	1.000	Sale and production of motorcycles
16	Ling Wei Motor Co., Ltd.	November 19, 2007	11F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipei City	NT	\$ 36,084	1.000	Sale of used cars
17	Green Trans Investment Co., Ltd.	March 14, 2012	Offshore Chambers,P.O.Box 217,Apia, Samoa	US	\$ 11,200	29.76	General investment
18	Jiangsu Greentrans Electronics Technology Co., Ltd.	July 10, 2012	No. 130, Yanshan W. Road, Chengqu Industrial Park, Chenxiang Township, Taicang City, Jiangsu Province, Chian	US	\$ 11,200	29.76	Sale and production of Electric scooters' relevant parts and accessories
19	Brilliant Insight International Consultancy Service Co., Ltd.	January 16, 2014	11F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipei City	NT	\$ 22,000	1.000	Consulting and service
20	Fujian Rui Hua Consulting Co., Ltd.	April 24, 2013	General Office Building,South East (Jujian) Car Industrial Co., Ltd., South East Investment Zone, Minhou County	US	\$ 3,400	29.76	Consulting and service
21	Hwa Wei Holdings Co., Ltd.	May 26, 1995	Citco Building, Wickhams Cay, P. O. Box 662, Road Town, Tortola, British Virgin Island	US	\$ 100	29.76	Overseas investment in production and service businesses
22	China Motor Investment Co., Ltd.	November 8, 2005	Level 2, Lotemau Centre, Vaea Street, Apia, Samoa	US	\$ 40	29.76	General investment
23	Alliance Investment & Management Co., Ltd.	January 11, 1999	13F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipci City	NT	\$ 1,830,000	1.000	General investment
24	Sino Diamond Motor Corporation	June 5, 1993	11F, No. 2, Sec. 2, Dunhua S. Road, Daan Dist., Taipei City	NT	\$ 3,257,862	1.000	Sale of automobiles and provision of after-sale service
25	Hwa Yu Co., Ltd.	November 12, 2003	2nd Floor,Building B,SNPF Plaza,Savalalo,Apia,Samoa	US	\$ 45,643	29.76	Overseas investments in production and service businesses

(To be continued)

Special Disclosure

(Continued)

No.	Name of Company	Date of Establishment	Address	Paid-in Capital			Major business or production item
				Currency	Amount	Exchange Rate	
26	Hwa Lin Investment Ltd.	December 14, 1999	OMC Chambers,P.O. Box 3152, Road Town, Tortola, British Virgin Island	US	\$ 42,093	29.76	Overseas investment in production and service businesses
27	Guangzhou Huayou Motor Maintenance Co., Ltd.	February 19, 2004	Guangzhou Automobile Market, Yuangang Sec., Guangshan Highway, Tianhe Dist., Guangzhou City	US	\$ 12,810	29.76	Car repair and supporting service, and the sale of cars and parts
28	Guangzhou Huayou Motor Sale Co., Ltd.	September 9, 2002	Guangzhou Automobile Market, Yuangang Sec., Guangshan Highway, Tianhe Dist., Guangzhou City	CNY	\$ 43,000	4.565	Sale of cars and parts
29	Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd.	November 10, 2004	(Shipping Ave., Wuhou Dist.) Shuangfeng Village, Jinhua Township, Wuhou Dist., Chengdu City	US	\$ 13,330	29.76	Car repair and supporting service, and the sale of cars and parts
30	Sichuan Houwei Cars Service And Maintenance Co., Ltd. (Note 1)	December 17, 2010	No. 76, Shuxi Road, Jinniu Dist., Chengdu City	CNY	\$ 3,000	4.565	Sale of cars and parts
31	Sichuan Lingwei Cars Service And Maintenance Co., Ltd.	January 16, 2003	(Shipping Ave., Wuhou Dist.) Shuangfeng Village, Jinhua Township, Wuhou Dist., Chengdu City	CNY	\$ 2,000	4.565	Sale of cars and parts
32	Tianjin Hwarui Maintenance Co., Ltd.	September 22, 2003	Block A, Car Town, Wanglan Manor, Weijin S. Road, Xiqing Dist., Tianjin City	US	\$ 8,020	29.76	Car repair and supporting service, and the sale of cars and parts
33	Tianjin Hwahong Sale Co., Ltd.	January 19, 2003	Block A, Car Town, Wanglan Manor, Weijin S. Road, Xiqing Dist., Tianjin City	CNY	\$ 60,000	4.565	Sale of cars and parts
34	Dongguan Huayi Motor Maintenance Co., Ltd.	July 11, 2006	Baotun Sec., Guantai Road, Houjie Township, Dongguan City	US	\$ 4,450	29.76	Car repair and supporting service, and the sale of cars and parts
35	Dongguan Huashun Motor Sale Co., Ltd.	October 18, 2002	Baotun Sec., Guantai Road, Houjie Township, Dongguan City	CNY	\$ 15,000	4.565	Sale of cars and parts
36	Hwa Hann Corporation (Note 2)	November 19, 2002	2nd deck Penthouse, Salamin Building 197 Salcedo St. Legaspi Village, Makati City 1229, Philippines	PHP	\$ 10,636	0.5892	Purchase and sale of car accessories

Note 1: Sichuan Houwei Cars Service And Maintenance Co., Ltd. is in the course of annulment.

Note 2: Hwa Hann Corporation is in the course of liquidation.

Special Disclosure

3. Information of the shareholders in a controlling or affiliated entity: None

4. Information of directors, supervisors and presidents of each affiliated enterprise

December 31, 2017

Unit:Share : %

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Kian Shen Corporation	Chairperson	China Motor Corporation Representative: Ching-Long Jan	32,201,367	43.87%
	Director	China Motor Corporation Representative: Shao-Pao Mai	32,201,367	43.87%
	Director	Yulon Business Management Company Representative: Hung-Ching Yang Min-Chang Lee	10,600	0.01%
	Director	Kuozui Motors, Ltd. Representative: Yong-Yu Lin Hisa Hashimoto Guo-Yan Chen	24,178,711	32.94%
	Independent Director	Chen-Chi Hsiao		
	Independent Director	De-Chang Ye		
	Supervisor	Wei Tai Investment Co., Ltd. Representative: Yong-Yuan Wang Zhi-Ming Zheng	740,857	1.01%
President	Shao-Pao Mai			
Kian Shen Investment Co., Ltd. (British Virgin Islands)	Director	Kian Shen Corporation Representative: Shao-Pao Mai	10,296,105 (US\$1 per share)	100.00%
Kian Shen Investment Hong Kong Co.Limited	Director	Kian Shen Investment Co., Ltd. (British Virgin Islands) Representative: Shao-Pao Mai	25,907,038 (US\$1 per share)	100.00%
COC Tooling & Stamping Co., Ltd.	Chairperson	China Motor Corporation Representative: Hsi-Yuan Chung	33,564,678	49.76%
	Director	China Motor Corporation Representative: Ching-Ya Chen Shing JuChen Min-Chang Lee	33,564,678	49.76%
	Director	Yulon Motor Co., Ltd. Representative: Zhen-Xiang Yao Zeng-Ciang Huang Yong-Yuan Wang	25,469,581	37.76%
	Supervisor	Tai-Yuan Textile Co., Ltd. Representative: Chung-Chen Liu	8,421,863	12.48%
	President	Tung-tai Hsiung		

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Y. M. Hi-Tech Industry Ltd.	Chairperson	COC Tooling & Stamping Co., Ltd. Representative: Hsi-Yuan Chung	4,250,000	85.00%
	Director	COC Tooling & Stamping Co., Ltd. Representative: Chia-Pin Lin Shui-Hsing Luo Zong-Jhih Chen	4,250,000	85.00%
	Director	Metal One (Japan) Representative: Makoto Morita	750,000	15.00%
	Supervisor	Mei-Ching Wu		
	President	Hsi-Yuan Chung		
Shye Shinn Corporation	Chairperson	COC Tooling & Stamping Co., Ltd. Representative: Hsi-Yuan Chung	968,000 (Contribution: US\$)	100.00%
Zhengzhou Tooling & Stamping Co., Ltd.	Director	Shye Shinn Corporation Representative: Hsi-Yuan Chung	7,500,000 (Contribution: RMB)	60.00%
China Engine Corporation	Chairperson	China Motor Corporation Representative: Jin-Chung Lee	32,000,000	18.95%
	Director	China Motor Corporation Representative: Hsin-Tai Liu Ching-Ya Chen Shing Ju Chen Shih-Hsien Lin	32,000,000	18.95%
	Director	Yulon Motor Co., Ltd. Representative: Zhen-Xiang Yao Ching-Chi Chen	32,000,000	18.95%
	Director	National Development Fund, Executive Yuan Representative: Wei-Hsien Lee Jin-Piao Lin	32,000,000	18.95%
	Supervisor	Sino Diamond Motor Corporation Representative: Mei-Chu Tai	56,000,000	33.16%
	Supervisor	Sentec E&E Co., Ltd. Representative: Chao-Hui Huang	6,000,000	3.55%
	Supervisor	Ministry of Economic Affairs Representative: Wei-Yu Yeh	8,900,000	5.27%
	President	Shih-Hsien Lin		
Advance Power Machinery Co., Ltd.	Chairperson	China Engine Corporation Representative: Ching-Chi Chen	500,000	100.00%
	Director	China Engine Corporation Representative: Jin-Chung Lee Shih-Hsien Lin	500,000	100.00%
	Supervisor	China Engine Corporation Representative: Wun-Yi Luo,	500,000	100.00%
	President	Bing-Lin Chen		
Advance Power Investment Co., Ltd.	Director	China Engine Corporation Representative: Jin-Chung Lee	3,750,000 (US\$1 per share)	100.00%

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Gatetech Technology Inc.	Chairperson	China Motor Corporation Representative: Hsin-Tai Liu	24,725,155	56.53%
	Director	China Motor Corporation Representative: Ya-Cheng Hsiao Te-Chao Huang Lai-Fa Lyu	24,725,155	56.53%
	Director	Jing Yu Co., Ltd. Representative: Bai-Chuan Cheng	1,010,048	2.31%
	Supervisor	Sino Diamond Motor Corporation Representative: Mei-Chu Tai	3,945,760	9.02%
	Supervisor President	Sheng-Le Lin Ya-Cheng Hsiao	550,027	1.26%
Gatech Holding Co. Ltd..	Director	Gatetech Technology Inc. Representative: Hsin-Tai Liu	20,130,389 (US\$1 per share)	100.00%
Gatech International Co. Ltd.	Director	Gatech Holding Co. Ltd. Representative: Hsin-Tai Liu	20,268,460 (US\$1 per share)	100.00%
Gatetech (Suzhou) Technology Inc.	Chairperson	Gatech International Co. Ltd. Representative: Hsin-Tai Liu	24,300,000 (Contribution:US\$)	100.00%
	President	Ya-Cheng Hsiao		
Hwa Chung Motor Co., Ltd.	Chairperson	China Motor Corporation Representative: Kenneth K. T. Yen	8,790,000	100.00%
	Director	China Motor Corporation Representative: Hsin-Tai Liu Chao-Wen Chen Te-Jun Lo Ching-Wu Chien	8,790,000	100.00%
	Supervisor	China Motor Corporation Representative: Mei-Chu Tai	8,790,000	100.00%
	President	Te-Jun Lo		
GreenTrans Co., Ltd.	Chairperson	Hwa Chung Motor Co., Ltd. Representative: Te-Jun Lo	1,000,000	100.00%
	Director	Hwa Chung Motor Co., Ltd. Representative: Kuo-Hsiung Peng I-Yuan Huang	1,000,000	100.00%
	Supervisor	Hwa Chung Motor Co., Ltd. Representative: Mei-Chu Tai	1,000,000	100.00%
	President	Kuo-Hsiung Peng		
Ling Wei Motor Co., Ltd.	Chairperson	Hwa Chung Motor Co., Ltd. Representative: Te-Jun Lo	3,608,397	100.00%
	Director	Hwa Chung Motor Co., Ltd. Representative: Li-Wei Wang Alex Chen	3,608,397	100.00%
	Supervisor	Hwa Chung Motor Co., Ltd. Representative: Mei-Chu Tai	3,608,397	100.00%
	President	Te-Jun Lo		

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Green Trans Investment Co., Ltd.	Director	Alliance Investment & Management Co., Ltd. Representative: Chao-Wen Chen	11,200,000 (US\$1 per share)	100.00%
Jiangsu Greentrans Electronics Technology Co., Ltd.	Director	Green Trans Investment Co., Ltd. Representative: Hsin-Tai Liu	11,200,000 (Contribution: US\$)	100.00%
	Supervisor	Green Trans Investment Co., Ltd. Representative: Mei-Chu Tai	11,200,000 (Contribution: US\$)	100.00%
	President	Shih-Cing Yao		
Brilliant Insight International Consultancy Service Co., Ltd.	Chairperson	Sino Diamond Motor Corporation Representative: Te-Chao Huang	2,200,000	100.00%
	Director	Sino Diamond Motor Corporation Representative: Tien-Fu Chang Meng-Yan Liao	2,200,000	100.00%
	Supervisor	Sino Diamond Motor Corporation Representative: Mei-Chu Tai	2,200,000	100.00%
	President	Te-Chao Huang		
Fujian Rui Hua Consulting Co., Ltd.	Executive Director	Hwa Yu Ltd. Representative: Te-Chao Huang	3,400,000 (Contribution: US\$)	100.00%
	Supervisor	Hwa Yu Ltd. Representative: Mei-Chu Tai	3,400,000 (Contribution: US\$)	100.00%
	President	Te-Chao Huang		
Hwa Wei Holdings Co., Ltd.	Director	China Motor Corporation Representative: Kenneth K. T. Yen Chao-Wen Chen	40,000 (US\$1 per share)	40.00%
China Motor Investment Co., Ltd.	Director	China Motor Corporation Representative: Kenneth K. T. Yen Chao-Wen Chen	40,000 (US\$1 per share)	100.00%
Alliance Investment & Management Co., Ltd.	Chairperson	China Motor Corporation Representative: Kenneth K. T. Yen	183,000,000	100.00%
	Director	China Motor Corporation Representative: Li-Lien Chen Kuo-Rong Chen Chao-Wen Chen Ching-Wu Chien	183,000,000	100.00%
	Supervisor	China Motor Corporation Representative: Mei-Chu Tai	183,000,000	100.00%
	President	Chao-Wen Chen		

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Sino Diamond Motor Corporation	Chairperson	China Motor Corporation Representative: Kenneth K. T. Yen	325,786,161	100.00%
	Director	China Motor Corporation Representative: Chao-Wen Chen Te-Jun Lo Ching-Wu Chien Alex Chen	325,786,161	100.00%
	Supervisor	China Motor Corporation Representative: Mei-Chu Tai	325,786,161	100.00%
	President	Te-Jun Lo		
Hwa Yu Co., Ltd.	Director	Sino Diamond Motor Corporation Representative: Kenneth K. T. Yen	45,642,942 (US\$1 per share)	100.00%
Hwa Lin Investment Ltd.	Director	Hwa Yu Ltd. Representative: Kenneth K. T. Yen Te-Jun Lo	42,092,942 (US\$1 per share)	100.00%
Guangzhou Huayou Motor Maintenance Co., Ltd.	Chairperson	Hwa Lin Investment Ltd. Representative: Te-Jun Lo	12,810,000 (Contribution: US\$)	100.00%
	Director	Hwa Lin Investment Ltd. Representative: Ching-Wu Chien Min-Chang Lee	12,810,000 (Contribution: US\$)	100.00%
	Supervisor	Hwa Lin Investment Ltd. Representative: Mei-Chu Tai	12,810,000 (Contribution: US\$)	100.00%
	President	Jun-Wei Chen		
Guangzhou Huayou Motor Sale Co., Ltd.	Executive Director President	Hwa Lin Investment Ltd. Representative: Jun-Wei Chen Jun-Wei Chen	43,000,000 (Contribution: RMB)	100.00%
Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd.	Chairperson	Hwa Lin Investment Ltd. Representative: Te-Jun Lo	13,330,000 (Contribution: US\$)	100.00%
	Director	Hwa Lin Investment Ltd. Representative: Ching-Wu Chien Min-Chang Lee	13,330,000 (Contribution: US\$)	100.00%
	Supervisor	Hwa Lin Investment Ltd. Representative: Mei-Chu Tai	13,330,000 (Contribution: US\$)	100.00%
	President	Bing-Fu Li		
Sichuan Houwei Cars Service And Maintenance Co., Ltd. (Ntoe 3)	Executive Director President	Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd. Representative: Guang-Jing Wu Guang-Jing Wu	3,000,000 (Contribution: RMB)	100.00%
Sichuan Lingwei Cars Service And Maintenance Co., Ltd.	Executive Director President	Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd. Representative: Bing-Fu Li Bing-Fu Li	2,000,000 (Contribution: RMB)	100.00%

(To be continued)

Special Disclosure

(Continued)

Name of Company	Title	Name or Representative	Number of shares held(Note 1,2)	
			Number of shares	Shareholding ratio
Tianjin Hwarui Maintenance Co., Ltd.	Chairperson	Hwa Lin Investment Ltd. Representative: Te-Jun Lo	8,000,000 (Contribution: US\$)	99.75%
	Vice Chairperson	Dongguan Huayi Motor Maintenance Co., Ltd. Representative: Ching-Wu Chien	20,000 (Contribution: US\$)	0.25%
	Director	Hwa Lin Investment Ltd. Representative: Min-Chang Lee	8,000,000 (Contribution: US\$)	99.75%
	Supervisor	Hwa Lin Investment Ltd. Representative: Mei-Chu Tai	8,000,000 (Contribution: US\$)	99.75%
	President	Sa-He Wang		
Tianjin Hwahong Sale Co., Ltd.	Executive Director	Tianjin Hwarui Maintenance Co., Ltd. Representative: Sa-He Wang	60,000,000 (Contribution: RMB)	100.00%
	President	Sa-He Wang		
Dongguan Huayi Motor Maintenance Co., Ltd.	Chairperson	Hwa Lin Investment Ltd. Representative: Te-Jun Lo	4,450,000 (Contribution: US\$)	100.00%
	Director	Hwa Lin Investment Ltd. Representative: Ching-Wu Chien Min-Chang Lee	4,450,000 (Contribution: US\$)	100.00%
	Supervisor	Hwa Lin Investment Ltd. Representative: Mei-Chu Tai	4,450,000 (Contribution: US\$)	100.00%
	President	Ming-Jhang Wang		
Dongguan Huashun Motor Sale Co., Ltd.	Executive Director	Dongguan Huayi Motor Maintenance Co., Ltd. Representative: Ming-Jhang Wang	15,000,000 (Contribution: RMB)	100.00%
	President	Ming-Jhang Wang		
Hwa Hann Corporation (Ntoe 4)	Chairperson	Sino Diamond Motor Corporation Representative: Chung-Chou Huang	542,429	51.00%
	Director	China Motor Corporation Representative: Pu-yang Liu	521,161	48.99%
	Director	Josefina K.Beltran	1	0.00%
	Director	Leonora C.Ventura	1	0.00%
	Director	Lourdes GLabao	1	0.00%
			(10 PESO per share)	

Note: 1. If the invested company is a company limited by shares, number of shares and shareholding ratio will be disclosed. As for other types of companies, contribution and contribution ratio will be disclosed.

2. If the director or supervisor is a corporation, the information of its representative will also be disclosed.

3. Sichuan Houwei Cars Service And Maintenance Co., Ltd. is in the course of annulment.

4. Hwa Hann Corporation is in the course of liquidation.

Special Disclosure

5. Business Status of Each Related Enterprise

December 31, 2017

Unit: NT\$ thousands; except earnings per share in NT\$

Name of Company	Capital	Total Assets	Total Liabilities	Equity	Operating Income	Operating Profit	This year's profit (loss) (After tax)	Earnings per share (After tax)
Kian Shen Corporation	734,001	4,776,722	889,633	3,887,089	1,169,100	8,562	540,584	7.36
Kian Shen Investment Co., Ltd.	328,888	3,759,554	370,168	3,389,386	-	(5)	648,190	62.96
Kian Shen Investment Hong Kong Co. Limited	770,992	3,780,375	414,612	3,365,763	-	(218)	588,845	22.73
COC Tooling & Stamping Co., Ltd.	674,591	2,099,882	717,524	1,382,358	1,557,405	234,622	181,245	2.69
Y. M. Hi-Tech Industry Ltd.	50,000	218,620	145,251	73,369	330,707	8,483	7,466	1.49
Shye Shinn Corporation (British Virgin Islands)	28,808	38,187	-	38,187	-	(1,071)	(1,546)	-
China Engine Corporation	1,689,000	1,292,728	283,449	1,009,279	814,691	(51,938)	5,676	0.03
Advance Power Machinery Co., Ltd.	5,000	50,453	38,543	11,910	119,572	6,245	4,738	9.48
Advance Power Investment Co., Ltd.	111,600	96,001	-	96,001	-	-	(3,061)	(0.82)
Gatetech Technology Inc.	437,372	1,179,695	678,507	501,188	395,118	68,249	129,025	2.95
Gatech Holding Co. Ltd.	647,041	596,600	-	596,600	-	(1)	20,039	1.00
Gatech International Co. Ltd.	657,284	596,575	-	596,575	-	-	20,042	0.99
Gatetech (Suzhou) Technology Inc.	723,168	673,665	78,434	595,231	426,710	13,042	20,152	-
Hwa Chung Motor Co., Ltd.	87,900	66,324	100	66,224	-	(102)	1,183	0.13
GreenTrans Co., Ltd.	10,000	20,629	9,541	11,088	34,966	367	835	0.83
Ling Wei Motor Co., Ltd.	36,084	98,352	70,287	28,065	140,883	(1,561)	209	0.06
Green Trans Investment Co., Ltd.	344,369	295,079	-	295,079	1,329	(22,417)	(22,428)	(2.00)
Jiangsu Greentrans Electronics Technology Co., Ltd.	333,312	322,006	27,043	294,963	72,100	(21,585)	(22,374)	-

(To be continued)

Special Disclosure

(Continued)

Name of Company	Capital	Total Assets	Total Liabilities	Equity	Operating Income	Operating Profit	This year's profit (loss) (After tax)	Earnings per share (After tax)
Brilliant Insight International Consultancy Service Co., Ltd.	22,000	40,930	19,425	21,505	81,494	2,594	2,772	1.26
Fujian Rui Hua Consulting Co., Ltd.	101,184	95,831	641	95,190	10,774	(108)	11	-
Hwa Wei Holdings Co., Ltd.	3,080	2,039,613	81,550	1,958,063	(6,444)	(44,081)	157,684	1,576.84
China Motor Investment Co., Ltd.	1,402	1,176,885	-	1,176,885	94,611	94,611	94,478	2,361.96
Alliance Investment & Management Co., Ltd.	1,830,000	1,618,772	15,913	1,602,859	-	(203)	(33,201)	(0.18)
Sino Diamond Motor Corporation	3,257,862	3,784,000	883,897	2,900,103	1,420,823	34,689	100,560	0.31
Hwa Yu Co., Ltd.	1,450,378	1,074,938	-	1,074,938	134,603	134,603	134,600	2.95
Hwa Lin Investment Ltd.	1,328,660	979,710	-	979,710	146,255	143,691	134,592	3.20
Guangzhou Huayou Motor Maintenance Co., Ltd.	381,226	216,005	106,180	109,825	555,877	18,747	7,094	-
Guangzhou Huayou Motor Sale Co., Ltd.	196,295	89,361	91,039	(1,678)	534,897	(13,261)	(14,175)	-
Sichuan Huafeng Hanwei Cars Service And Maintenance Co., Ltd.	396,701	224,876	106,266	118,610	859,980	(6,949)	(6,083)	-
Sichuan Houwei Cars Service And Maintenance Co., Ltd. (Note 1)	13,695	1	1,094	(1,093)	-	(98)	(117)	-
Sichuan Lingwei Cars Service And Maintenance Co., Ltd.	9,130	7,296	9,765	(2,469)	5,305	2,288	1,861	-
Tianjin Hwarui Maintenance Co., Ltd.	238,675	258,240	93,009	165,231	32,335	875	26,927	-
Tianjin Hwahong Sale Co., Ltd.	273,900	383,780	92,737	291,043	694,110	32,318	26,411	-
Dongguan Huayi Motor Maintenance Co., Ltd.	132,432	250,893	120,186	130,707	372,668	13,105	51,187	-
Dongguan Huashun Motor Sale Co., Ltd.	68,475	238,150	201,012	37,138	1,373,611	54,010	40,604	-
Hwa Hann Corporation (Note 2)	-	-	-	-	-	-	-	-

Note 1: Sichuan Houwei Cars Service And Maintenance Co., Ltd. is in the course of annulment.

Note 2: Hwa Hann Corporation is in the course of liquidation.

(II) Consolidated Financial Statements of Affiliated Enterprises: Same as the financial report of parent company and its subsidiaries.

Special Disclosure

Declaration of the Consolidated Financial Statements of Affiliates

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2017 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

China Motor Corporation



Chairperson: Kenneth Kenneth K. T. Yen



March 26, 2018

(III) Affiliation Report: None

Special Disclosure

II. Private Placement Securities during the 2017 Calendar Year and up to March 31, 2018: None

III. Status of Shares Held or, Disposed of, by Subsidiaries during the 2017 Calendar Year and up to March 31, 2018: None

IV. Other Special Notes: None

V. Impacts of Significant Events on Shareholders' Rights or Stock Value during the 2017 Calendar Year and up to March 31, 2018: None

China Motor Corporation



Chairperson: Kenneth K.T. YEN

A handwritten signature in black ink, reading "嚴凱泰" (Yen Kai Tai), which is the Chinese name of Kenneth K.T. Yen.