Stock Code: 8478

Alexander Marine Co., Ltd.
2018 Annual Report

-Notice to readers-

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese version, the Chinese version shall prevail.

2018 Annual Report is avaliable at:
http://mops.twse.com.tw
https://oceanalexander.com/zh-hans/
Printed on April 30, 2019

I. Company Spokesman:

Spokesman:	Hsiung Wei (Kevin) Tseng
Title:	Vice Chairman and President
TEL:	(07)831-4126
E-mail address:	investor@oceanalexander.com
Acting Spokesman:	Yi Cheng (Anita) Lu
Title:	Manager, Investor Relations
TEL:	(07)831-4126
E-mail address:	investor@oceanalexander.com

II. Address and phone number of the head office, branch office, and factory.

Company Address: No. 1, Jinfu Rd., Qianzhen Dist., Kaohsiung City

TEL: (07)831-4126

Factory Address: No. 1, Jinfu Rd., Qianzhen Dist., Kaohsiung City

TEL: (07)831-4126

Factory Address: No. 18, 20, Tongli Rd., Xiaogang Dist., Kaohsiung City

TEL: (07)831-4128

Factory Address: No. 11, Guangyang St., Xiaogang Dist., Kaohsiung City

TEL: (07)807-1332

Factory Address: No. 17, Daye N. Rd., Xiaogang Dist., Kaohsiung City

TEL: (07)807-1242

III. Transfer Agent:

Company:	KGI SECURITIES
Address:	5F., No. 2, Sec. 1, Chongqing S. Rd., Taipei City
Website:	http://www.kgi.com/
TEL:	(02)2389-2999

IV. Independent Auditor:

Auditors:	Cheng Chu Chen and Fang Wen Li
Company:	Ernst & Young.
Address:	17F, No. 2, Zhongzheng 3rd Rd., Kaohsiung City
Website:	http://www.ey.com.tw
TEL:	(07)238-0011

V. Overseas Securities Exchange: None.

VI. Corporate Website: https://oceanalexander.com/zh-hans/

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I. Letter to Shareholders

Dear shareholders,

First of all, on behalf of the Management Team, I would like to thank all shareholders for your support and concern for the Company.

2018 was a solid year for Alexander Marine. In face of the challenges of global economy uncertainties and industry competition, the Company delivered another year of record revenue since inception. Moreover, the Company ranked among top ten super yacht manufacturers by the renowned magazine "ShowBoats International" for four years in row. The magazine surveys covered manufacturers of yachts of 78 feet or more.

I. 2018 Business Report

(1) Implementation of Business Plan

In terms of super yachts, the Company has in-depth industrial expertise and production technology. We are devoted to the production efficiency improvement in factories both in Taiwan and the United States and continue to invest in new product development. At the end of 2018, we successfully launched the new 90-feet yacht at the Fort Lauderdale Boat Show. As for sales distribution network, we have secured a steady collaborative relationship with MarineMax, the largest listed yacht agent in the United States, and also established a subsidiary as a direct sales base in Australia in 2018, and have already begun to bear fruit. In 2017, the Company established a San Diego base to expand market operations for small sized yachts. Penetration of the US West-region market from Seattle to San Diego, was rapid and brand agents were added for smaller yachts to enhance the diversity and integrity of the product portfolio. The Company acquired a service yard in Seattle in the early of 2018 to further expand after-sales repair and maintenance service line and to strengthen its own existing service team. In addition, the service team is able to get first-hand information about the market dynamics and customer preferences. Complete after-sales maintenance services are conducive to foster customer loyalty.

In 2018, the consolidated net sales of the Company increased to NT$3,959,487 thousand. Despite the impact of the transition and crowding-out between old and new products, the company achieved a remarkable consolidated net sales of NT$3,959 million in 2018, an increase of 9.29% year-over-year, thanks to a full range of business lines. Profitability also improved significantly. Net income of the Company soared 30.94% to approximately NT$359 million in 2018.

(2) Implementation of Budget

The Company did not disclose the financial projection and budget.

(3) Financial Performance and Profitability Analysis

1. Financial Performance

Unit: NTD thousand

Item	2018	2017	Increase / decrease %
Net Sales	3,959,487	3,622,993	9.29%
Gross Profit	1,103,618	1,106,800	-0.29%
Operating Expenses	836,923	731,501	14.41%
Operating Profit	266,695	375,299	-28.94%
Profit before income tax	391,311	340,474	14.93%
Net income	358,783	273,998	30.94%

The decrease of sales volume of large-size yachts in 2018 was due to the product mix and the production capacity allocation adjust for new product development. On the other hand, sales of small size boats increased thanks to enlarging product (brand) portfolio. Sales mix for the recent two years is as follows:

Unit: boat ; NTD

Year / Sales Volume/Value / Main Products	2018				2017			
	Domestic sales		Exports		Domestic sales		Exports	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Large-size yachts (note 1)	-	-	14	2,847,393	-	-	21	3,318,752
Small-size yachts (note 1)	-	-	28	408,074	-	-	12	136,202
Others (note 2)	-	-	-	704,020	-	-	-	168,039
Total	-	-	42	3,959,487	-	-	33	3,622,993

Note 1: Large-size yachts refers to vessels of 70 feet or more; small-size refers to other brands of yacht for which we act as agents in the US.

Note 2: Including sales of spare parts, used boats, and income from maintenance service.

2. Profitability Analysis

Item	2018	2017
Return on Assets %	7.45	7.00
Return on Shareholders' Equity %	12.87	12.13
Percentage of Profit before Tax to Capital %	42.05	36.00
Net Profit Margin %	9.06	7.56
Earnings per Share (NTD)	3.85	3.24

(4) Research and Development Update

The yacht industry is characteristically labor intensive. This is true in spite of the technology required for installing the equipment or interior decoration because the fine quality of the yacht is controlled by experienced master craftsmen, rather than by special processes protected by patents. Also, the high-end equipment used on board can be acquired through procurement. This means that current research and development plans in the yacht building business focuses mainly on the design of "functionality". The company continues to improve existing products, strengthen the systematic management of the production line, and to discern ship owners' needs using feedback from sales personnel. After-sales service tracks the relevant technologies and research results, and feeds this information to the manufacturing production line to implement corrections as well as increase competitive differentiation. Three newly designed models have entered production schedules and will be launched in 2019.

II. 2019 Business Plan Highlights

(1)Operation Strategies

1. Production aspects: Continuous improvement is being made to the modular technology and application areas to shorten the production cycle, increase efficiency and reduce operating costs. The Company is also expanding its product line. The third factory, leased in Kaohsiung, has moved into production, and re-construction of the old factory in the Xiaogang district is ongoing. At the same time, the US factory has entered the small yacht market with outboard cruising yachts of 50 feet or less to increase competitiveness and expand market share.
2. Service aspects: We continue to strengthen and deepen customer service, and increase the range of service items as well as bases through acquisition, investment, and strategic cooperation. We establish appropriate services based on customer groups to meet the needs of overseas markets and customers. We follow the latest trends of the international yacht industry, acquire new equipment and technology, and respond to customer feedback on a regular basis to develop and keep our operation strategies up to date.

3. Market aspects: We maintain a steady collaborative relationship with MarineMax, the world's largest yachting agency, and continue to deepen our brand advantage in high quality technology to consolidate our market share in large yachts in the United States, expand the scale of small yacht brand agents, and enrich our product portfolio. At the same time, the Company is expanding its European and Australian markets and establishing sales channels for its own agents or appointed agents, to reduce our dependence on a single US market as well as to diversify the risk of sales to customer concentration.
4. Branding: Our experience in global market operation and self-owned brand over the past 40 years has allowed the Company to lay out highly-priced and large-scale luxury yachts early on, and to adjust production, marketing, and customer service strategies. Ocean Alexander, our own brand, has been upgraded to global positioning, exhibiting a unique value that differentiates it from the competitive pricing business model adopted by the industry.

(II) Sales Volume Forecast and Assumptions

The Company estimates its sales volume for 2019 based on the overall economic environment changes taking into account various factors, such as market demands, new product launch schedule, agent orders, and the popularity of small-scale yacht in the market, and the newly expanded productivity performance which has not yet shown. We think that the sales volume of the Company in 2019 will be still slightly more than that in 2018, and the revenue is expected to maintain a stable growth trend.

(III) Important Production and Marketing Strategies

1. Production aspects: The Company has deep industrial expertise and technical capabilities, with vacuum-assisted resin infusion molding (VARIM) processing, laser shaft alignment, floating floor and wall, and high-level molding mass production capacity. There are factories both in Taiwan and the United States. In the future, we plan to manufacture large-size yachts with better margin in Taiwan, and outboard cruising yachts that are 50 feet or less in the United States. The factories in these two places allows us to efficiently allocate production capacity for various new models, and then to provide a full range of product portfolio.
2. Sales aspects: The company has its own sales base on the West Coast of the United States, and on the East Coast, cooperates with MarineMax, the largest listed yacht agent in the United States. In addition to the US market, the Company has established a sales base in Australia in 2018, and will enter Europe in 2019, actively expanding the sales channel network. The Company has established a subsidiary in Hong Kong, one of the major financial centers in Asia. The Company has a complete and professional team with the capabilities of design, molding, manufacturing, sales, repair and warranty services.

III. Future Development Strategy

(1) Continuous cultivation of the brand: The Company is different from the others in the industry, which started out as OEM, and has cultivated its own brand overseas for many years, accumulating high level brand identity and recognition. To deepen customer loyalty, it persists in improving customer touch and recognition by satisfying consumer demands from manufacturing, sales, channels of distribution, including integration of the production and sales of the entire supply chain. In the future, we will continuously strengthen customer service not only through self-established sales offices, but also through enlarging sales and service network by mergers, or strategic alliances, etc. Furthermore, we will continue to promote and cultivate our brand “Ocean Alexander” via physical media and internet

(2) Technology development: Products with high quality are the core of the brand. The Company is dedicated to product development and production technology improvement. In future, the

Company shall continue to develop new technology and materials and to rigorously control the manufacturing process and quality so as to meet the customers' expectations.

(3) Customer value enhancement: the Company has years of experience in understanding the needs of the premium customers and the replacement cycle, and draws the production plan based on historical sales data, market outlook, and orders on hand. Standardized parts such as shells and decks are made beforehand, and the interior decorations and equipment are tailored based on customer requirements. This type of semi-customized planned production effectively shortens the customers' waiting period from order to delivery.

(4) Industry alliance for upstream and downstream: we would like to integrate and strategically cooperate with upstream supply chains such as hardware venders, assisting manufacturing vendors, shipyards, the logistics companies, and so on. On the other hand, we also plan to expand downstream business such as recreational terminal operations and repair and maintenance. The eventual goal is to build up a yachting ecosystem in the face of global competitions.

IV. Impacts of the external competitive environment, legal environment, and the overall business environment

(1) External competing environment

According to the latest data by the internationally well-known professional yacht magazine "2019 Show Boats International," orders for global mega yachts in 2019 (80 feet and over) rose 20% from their 2013 low. Orders for our main products (80 to 120 feet) have been increasing for nine consecutive years since 2010, indicating a continuous overall upwards market trend. The ranking for yachts manufacturing orders is still led by the traditional yacht manufacturing countries, Italy, the Netherlands and Turkey. The yacht industry of Taiwan is world-renowned and ranks first in Asia

(2) Legal environment.

The Company has overseas marketing, production, sales and service bases, and relevant operations that are run in accordance with all international trade and local regulations. The Company continues to pay careful attention to global regulations on money laundering prevention and personal data protection. The Company also continues to pay attention to the development status and formulate corresponding measures in advance for Domestic matters, all amendments to labor regulations, the tax system and environmental protection policy. The Company's management team will continue to assess the extent to which any changes will affect the Company, and take all the necessary legal management measures to avoid significant impact on Company financial operations due to changes in any domestic or overseas statutory environment.

(3) Overall business environment

According to the World Economic Outlook (WEO) published by the International Monetary Fund (IMF) in January 2019, the global economic growth rate is forecast to be 3.5% this year, with a growth forecast of 2.5% for the US and 1.6% for the Eurozone. Both are lower than last year, mainly due to the risks of tariff measures imposed by various governments, a re-tightening of the financial situation, no agreement in place for United Kingdom leaving the European Union, and the fact that China's economic slowdown was greater than expected. The overall economic risk is lower than that in 2018. In terms of the consumer price index (CPI), the Chung-Hua Institution for Economic Research (CIER) predicted in December 2018 that the annual growth rate of global CPI in 2019 will increase by 0.2 percentage points to 3.2% from 2018. The annual growth rate of CPI in the US and Europe is unchanged, at 2.5% and 1.8% respectively. This shows that there is still some support in consumption capacity. The Australian CPI index is expected to increase to 2.4%

from 2% in the previous year. The overall environment is positive for the Company's business.

V. Future Prospects

For the past 40 years, the Company has been committed to leadership in technology and manufacturing excellence, and has focused on brand value to win the trust of its clients. We expect the recovery of the US economy to bring about higher growth momentum for the Company which already possesses a solid foundation in design, production, sales, and after-sales service. Under the strategy of continuous expansion of production capacity, product improvements, and strengthening of product portfolio, the Company is ready to hit another peak.

On behalf of the Company's management team, I would like to give thanks for the support and contribution of all employees, shareholders, customers and venders. We will do our utmost to enhance the Company's value for shareholders, and wish all shareholders good health and good luck!

Alexander Marine Co., Ltd.

Chairman of board: Johnny Chueh

II. Company Profile

2.1 Date of Establishment: January 23, 1978

2.2 Milestones

Date	Important Events
January 1978	1. Alexander Marine Co., Ltd was established with paid-in capital of NT$16,000,000. 2. Obtained the business registration certificate and registered the factory at No.18, Tongli Rd., Xiaogang Dist., Kaohsiung City. 3. Established self-owned brand Ocean Alexander to manufacture and sell yachts.
1984	Invested in the development of luxurious yachts of size 70 feet and more, and unveiled its first yacht, the Night Hawk (OA70 feet), which is also the first made-in-Taiwan yacht of 70 feet and more.
2003	Unveiled first OA78 feet luxurious yacht.
2004	1. Developed vacuum resin infusion technology to build lighter and safer luxury yachts. 2. Completed the Jinfu factory expansion project that spanned over 19,976 square meters.
2005	Unveiled its first OA98 feet luxury yacht.
2008	1. The Company ranked 16th out of the top 20 large yacht manufacturing companies in the world. 2. Increased the paid-in capital up to NT$499,000,000 by cash capital injection.
2014	1. Developed its own global marketing and distributing channel by establishing a subsidiary Alexander Marine International Co., Limited (AMI) in Hong Kong, with 100% shareholding. 2. Cooperated with Marine Max, the largest listed yachting agent company in U.S. as strategic partner. 3. Increased the paid-in capital to NT$541,561,000 with retained earnings for an amount of NT$42,561,000.
2015	1. The Company ranked the 14th yacht manufacturer in the world by the survay of Show Boats International Magazine. 2. Increased the paid-in capital to NT$561,561,000 by cash capital injection 3. Officially shipped out its first, self-produced OA112 feet luxurious yacht. 4. Emerging Stock Market Registration.
2016	1. The Company ranked the 4th largest yacht manufacturer in the world by the survay of Show Boats International Magazine. 2. Increased the paid-in capital to NT$666,709,000 with retained earnings transferred to captial and issuance of the restricted shares. 3. Acquired Merritt Island Boat Works, Inc. (MIBW), a factory in the East Coast of the United States to expand production lines and product portfolio. 4. Completed the Company's first OA120 feet luxury yacht.
2017	1. The Company ranked the 5th largest yacht manufacturer in the world by the survay of Show Boats International Magazine. 2. Increased the paid-in capital to NT$945,673,000 by cash capital injection, retained earnings transferred to captial and issuance of the restricted shares. 3. Listed at Taiwan Stock Exchange.
2018	1. Completed an asset acquistion deal for a service yard in Seattle to strengthen the service and repair business. 2. Established Alexander Marine Australia Pty Ltd. (AMA) as owned sales channel. 3. Signed a syndicated loan agreement of NT$3.2 billion with Chang Hwa Bank and 10 other banks. 4. Completed share acquistion with the related party, Rocs Marine Industry Corporation.

2.3 During the most recent years and up to the date of publication of the annual report, any material siginificant impact on shareholders' equtiy caused by merger and acquistion activities, strategic investments in affiliatted enterprises, corporate reorganization, instances in which a major quantity of shares belonging to directors or shareholders holding greater than a 10 percent stake in the Company is transferred or otherwise changes hands, any change in managerial control, any material change in operating methods or type of business, or any other matters.

(1) To enhance overall business scope, the Board of Directors passed the resolution on February 26, 2018 to indirectly acquire related assets of the U.S.-based reapir and maintenance company, Pacific Coast Yacht Service, Inc. by its subsidiary AMI.

(2) In response to the expansion of the operational channel, the Board of Directors of AMI passed the resolution on March 9, 2018 to establish AMA with 100% ownership in Australia.

(3) Due to operational needs, the Board of Directors passed the resolution on March 30, 2018 to increase the capital to AMI, and aslo to increase capital to MIBW by AMI.

(4) In consideration of actual operational and capital needs, the Board of Directors passed the resolution on August 13, 2018 to transfer claims into shares to AMI.

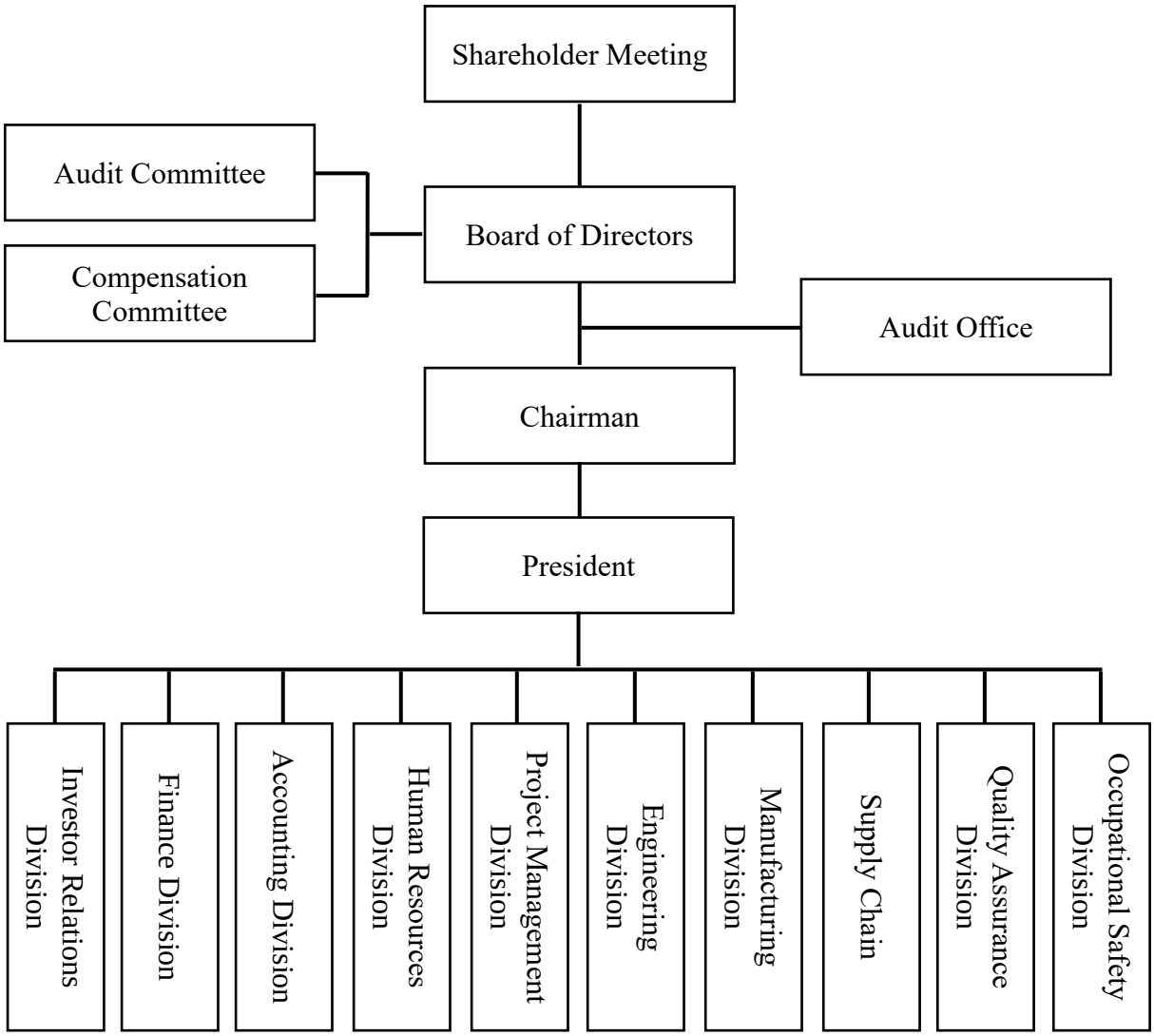
(5) Due to operational needs, the Board of Directors passed the resolution on August 13, 2018, to increase capital to MIBW and AMUSA by AMI.

(6) In order to provide additional working capital, the Board of Directors passed the resolution on January 21,2019 to increase capital to AMA and AME by AMI.

III. Corporate Governance Report

3.1 Organizational Structure

3.1.1 Organizational Chart



3.1.2 Major Corporate Functions

Department	Functions
President Office	1. Formulate long and medium term strategy for business development. 2. Comprehensive planning, evaluation, and implementation of every department. 3. Market analysis, product development, strategic planning and implementation for business competition. 4. Coordination and institutional planning among every department.
Audit Office	1. Evaluate the rationality of the internal control system. 2. Draft and finalize an audit plan to review the business execution situation of each unit, and provide analysis and recommendations.
Accounting, Investor Relations, and Finance Divisions	1. Overall financial planning, capital utilization and risk management. 2. Comprehensive accounting, tax and stock matters, and decision support analysis. 3. Stakeholder communication, information dissimilation, and management.
Human Resources Division	1. Overall human resources management and employee relationship management. 2. Personnel system planning and implementation.
Project Management Division	1. Coordinate and manage every yacht production project. 2. Response to client and market needs, project developments for products and technology. 3. Coordinate clients' needs, develop and manage client relationship.
Engineering Division	1. Yacht technology development and design. 2. Technical development and improvement in electric engineering, mechanical engineering, structural, and interior design of yachts.
Manufacturing Department	1. Cooperate with every project in the implementation of product manufacturing and management. 2. On-site quality control, method, and R&D in production procedure.
Supply Chain	1. Comprehensive procurement, safe material storage, warehouse management, and so on. 2. Develop and manage supply-chain relationships.
Quality Assurance Division	1. Establish and manage quality management system. 2. Maintain customer relationships through after-sales service.
Occupational Safety Division	1. Planning of occupational safety management in factory. 2. Instruction of related departments on the implementation of occupational safety and health plan. 3. In charge of promoting and managing environmental safety and health.

3.2 Directors and Management Team

3.2.1 Directors

I. Directors Information (1)

April 7, 2019; Unit: shares

Title	Nationality	Name (Note 1)	Gender	Date Elected	Term (Y)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Current Positions at the Company and Other Companies	Executives or Directors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Australia	Johnny Chueh	Male	2018.6.29	3	1997.07.18	15,348,097	16.23%	15,348,097	16.50%	17,056,582	18.32%	15,996,276	17.20%	Department of Economics, University of Chicago Mitchell Madison Management Consulting	(Note 2)	None	None	None
Vice Chairman and President	Taiwan R.O.C.	Hsiung Wei Tseng	Male	2018.6.29	3	2013.07.18	119,384	0.13%	143,384	0.15%	37,294	0.04%	-	-	Department of Hydraulic and Ocean Engineering, Cheng-Kung University Manager of Chifu Construction Engineering Corporation Limited Manufacturing Manager of Alexander Marine Co., Ltd	Vice chairman and President of the Company, and director of AMI.	None	None	None
Director	Taiwan R.O.C.	Chung Hui Cheng	Male	2018.6.29	3	2013.07.18	2,268,276	2.40%	2,228,276	2.39%	1,992,574	2.14%	-	-	Department of Mathematics, National Tsing Hua University. General Manager of Alexander Marine Co., Ltd Manager of Yu-Ton (E-COM) Corporation	Manager of Yuhua Technology Co., Ltd	None	None	None
Independent Director	Taiwan R.O.C.	Ming Cheng Chang	Male	2018.6.29	3	2017.02.22	-	-	-	-	-	-	-	-	Department of Mechanical Engineering, National Taiwan University MBA, University of Michigan Qualified USCPA CPA, Deloitte	(Note 3)	None	None	None
Independent Director	Taiwan R.O.C.	Hung Wen Lin	Male	2018.6.29	3	2015.12.21	-	-	-	-	-	-	-	-	Master in Economics, Institute of Economics, Tianjin Nankai University Department of Communications Engineering, National Chiao Tung University Reporter of the Economic Daily News and assistant editor of the Business Today	(Note 4)	None	None	None
Independent Director	Taiwan R.O.C.	Neng Mou Tu	Male	2018.6.29	3	2018.6.29	44,088	0.05%	44,088	0.05%	-	-	-	-	Bachelor in Financial Law, College of Law, National Taiwan University Master and PhD in Law, University of California-Berkeley Legal Consultant of MediaTek Inc. Legal Consultant of Hon Hai Precision Industry Co., Ltd Founding partner of the Yuan Fang Law Firm	(Note 5)	None	None	None

Note 1: Existing directors as of the publication date of the annual report. I-Chun Wu resigned as director on August 6, 2018.

Note 2: The Board of Directors selected Johnny Chueh as the Company's chairman on June 29,2018. Johnny Chueh aslo acts as the chairman of subsidiaries Alexander Marine International Co., Limited, Alexander Marine USA Inc., Alexander Marine Enterprises Inc., Alexander Marine Australia Pty Ltd, Pacific Coast Yachting Services, Inc, and Rocs Marine Industrial Corporation.

Note 3: Chairperson of Taiwan Auditing Standards Committee, independent director of Medigen Vaccine Biologics Corporation, and independent director of United Alloy-Tech Company.

Note 4: Host of Uni FM96.7 financial program, consultant of Business Today, director of Shacom.com Inc., chairperson of DingXun Electrical Engineering Education Foundation.

Note 5: International partner of King & Wood Mallensons, independent director of Wisdom Marine Group, independent director of FocalTech Systems Co., Ltd.

II. Major shareholders of the corporate shareholder: None.

III. Major shareholders of corporate shareholders whom are the major shareholders of the Company's corporate shareholders: None.

IV. Director Information (2):

Criteria / Name	Meet one of the following professional qualifications, together with at least five years experiences			Independence Criteria (Note)										Number of other public companies concurrently 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 college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist 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	
Johnny Chueh	-	-	✓	✓	-	-	-	✓	-	✓	-	✓	✓	0
Hsiung Wei Tseng	-	-	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chung Hui Cheng	-	-	✓	✓	✓	-	-	✓	✓	✓	✓	✓	✓	0
Ming Cheng Chang	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Hung Wen Lin	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Neng Mou Tu	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: Existing directors as of the publication date of the annual report. Please add "✓" in the field under each criteria if the director meets the criteria two years prior to being elected and during his/her term of service.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.

(3) 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 someone else's name(s), in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.

(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 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 Company or to any affiliate of the Company, or a spouse thereof.

(8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.

(9) Not been a person of any conditions defined in Article 30 of the Company Law.

(10) Not a governmental, juridical person, or its representative as defined in Article 27 of the Company Law

3.2.2 Management Team

April 7, 2019

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Selected Education & Experiences	Positions concurrently held in other companies	Managers who are spouses or within two degrees of kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
Vice Chairman and President	Taiwan R.O.C.	Hsiung Wei Tseng	Male	1997.03.25	143,384	0.15%	37,294	0.04%	-	-	Department of Hydraulic and Ocean Engineering, Cheng-Kung University Manager of Chifu Construction Engineering Corporation Limited Manufacturing Manager of Alexander Marine Co., Ltd	-	None	None	None
CFO	Taiwan R.O.C.	Yu Chou Huang	Male	2016.04.27	72,131	0.08%	-	-	-	-	EMBA - Technology Management, National Cheng Kung University Chief financial officer of Chengyi Optical Co., Ltd. Deputy Supervisor of Finance and Accounting Division, Motech Industries Inc.	-	None	None	None
Assistant VP	Taiwan R.O.C.	Hsin Wen Huang	Female	2014.03.17	2,093	0.00%	-	-	-	-	Department of Naval Architecture and Ocean Engineering, National Kaohsiung University of Science and Technology Engineer of Ship and Ocean Industries R&D Center Section Mnager of Kha Shing Enterprise Assistant Manager of Project Management Division, Alexander Marine Co., Ltd	-	None	None	None
Manager of Engineering Division	Taiwan R.O.C.	Meng Yueh Ku	Male	2001.06.26	5,058	0.01%	-	-	-	-	Systems Engineering & Naval Architecture Department, National Taiwan Ocean University Master, Systems and Naval Mechatronic Engineering, National Cheng Kung University Engineer of Fair Wind Shipbuilding & Docking Co., Ltd	-	None	None	None

3.3 Remuneration of Directors, President and Vice President

3.3.1 Remuneration of Directors

Unit: NTD thousand

Title	Name	Remuneration to Directors								(A+B+C+D) as % of Net Income		Compensation Earned as Employee of the Company or of the Company's Affiliates								(A+B+C+D+E+F+G) as % of Net Income		Other Compensations from Non-subsidiary Affiliates
		Base Compensation (A)		Pension (B)		Remuneration to Directors (C)		Allowances (D)				Salaries, Bonus and Allowances (E)		Pension (F)		Employees Compensation (G)						
																The Company		All consolidated entities				
		The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	Cash	Stock	Cash	Stock	The Company	All consolidated entities	
Chairman	Johnny Chueh	-	-	-	-	-	-	-	-	-	-	-	10,863	-	-	-	-	-	-	-	3.03	8
Vice chairman & President	Hsiung Wei Tseng	-	1,811	-	-	-	-	-	-	-	0.50	5,114	5,114	66	66	155	-	155	-	1.49	1.99	None
Director	Yi Hui Kuo (note 1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	None
Director	Chung Hui Cheng	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	None
Director	Yi Chun Wu (note 2)	-	-	-		-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	None
Independent Director	Hung Wen Lin	600	600	-	-	-	-	12	12	0.17	0.17	-	-	-	-	-	-	-	-	0.17	0.17	None
Independent Director	Chi Sheng Huang (Note 1)	300	300	-	-	-	-	8	8	0.09	0.09	-	-	-	-	-	-	-	-	0.09	0.09	None
Independent Director	Ming Cheng Chang	600	600	-	-	-	-	12	12	0.17	0.17	-	-	-	-	-	-	-	-	0.17	0.17	None
Independent Director	Neng Mou Tu	303	303	-	-	-	-	4	4	0.09	0.09	-	-	-	-	-	-	-	-	0.09	0.09	None

Note 1: Term expired on June 29, 2018.
Note 2: Elected on June 29, 2018 and resigned on August 6, 2018.

Table of compensation range

Range of Remuneration	Name of Directors			
	Total (A+B+C+D)		Total (A+B+C+D+E+F+G)	
	The Company	All consolidated entities	The Company	All consolidated entities
Less than NT$2,000,000	Hsiung Wei Tseng, Johnny Chueh, Yi Hui Kuo, Chung Hui Cheng, Yi Chun Wu, Hung Wen Lin, Chi Sheng Huang, Ming Cheng Chang, Neng Mou Tu	Hsiung Wei Tseng, Johnny Chueh, Yi Hui Kuo, Chung Hui Cheng, Yi Chun Wu, Hung Wen Lin, Chi Sheng Huang, Ming Cheng Chang, Neng Mou Tu	Johnny Chueh, Yi Hui Kuo, Chung Hui Cheng, Yi Chun Wu, Hung Wen Lin, Chi Sheng Huang, Ming Cheng Chang, Neng Mou Tu	Yi Hui Kuo, Chung Hui Cheng, Yi Chun Wu, Hung Wen Lin, Chi Sheng Huang, Ming Cheng Chang, Neng Mou Tu
NT$2,000,000 (inclusive)~5,000,000	-	-	-	-
NT$5,000,000 (inclusive)~10,000,000	-	-	Hsiung Wei Tseng	Hsiung Wei Tseng
NT$10,000,000 (inclusive)~15,000,000	-	-	-	Johnny Chueh
NT$15,000,000 (inclusive)~30,000,000	-	-	-	-
NT$30,000,000 (inclusive)~50,000,000	-	-	-	-
NT$50,000,000 (inclusive)~100,000,000	-	-	-	-
More than NT$100,000,000	-	-	-	-
Total	9	9	9	9

3.3.2 Remuneration of President and Vice President

Unit: NTD thousand

Title	Name	Salary (A)		Pension (B)		Bonuses and Allowances (C)		Employee Compensation (D)				(A+B+C+D) as % of Net Income		Other Compensations from Non-subsidiary Affiliates
		The Company	All consolidated entities	The Company	All consolidated entities	The Company	All consolidated entities	The Company		All consolidated entities		The Company	All consolidated entities	
								Cash	Stock	Cash	Stock			
President	Hsiung Wei Tseng	4,793	4,793	66	66	321	321	155	-	155	-	1.49	1.49	None

Table of compensation range

Remuneration table for managers	Name of manager	
	The Company	All Consolidated Entities
Less than NT$2,000,000	-	-
NT$2,000,000 (inclusive)~5,000,000	-	-
NT$5,000,000 (inclusive)~10,000,000	Hsiung Wei Tseng	Hsiung Wei Tseng
NT$10,000,000 (inclusive)~15,000,000	-	-
NT$15,000,000 (inclusive)~30,000,000	-	-
NT$30,000,000 (inclusive)~50,000,000	-	-
NT$50,000,000 (inclusive)~100,000,000	-	-
More than NT$100,000,000	-	-
Total	1	1

3.3.3 Names of managers provided with r employees' emuneration as and the status of payment

2018; NTD thousand

	Title (Note 1)	Name	Stock	Cash (Note 3)	Total	As a percentage of net income (%)
Manager	President	Hsiung Wei Tseng	-	487	487	0.14
	Chief financial officer	Yu Chou Huang				
	Assistant VP	Hsin Wen Huang				
	Manager	Meng Yueh Ku				
	Chief Internal Auditor	Yi Lung Fang (Note 2)				

Note 1: The applicability of a manager is based on the scope as defined in the official letter issued by the Securities and Futures Commission, Ministry of Finance (Ref. No. SFC-MOF-0920001301) on March 27, 2003:

(1) President or equivalent
(2) Vice President or equivalent
(3) Assistant Manager or equivalent
(4) Head of Finance
(5) Head of Accounting
(6) Other personnel that are involved in the management of the Company or with signing authority

Note 2: Resigned on February 28, 2018.

Note 3: Refers to the amount of employee remuneration distributed to managers as approved by the Board of Directors

3.3.4 Compare and analyze total remuneration as a percentage of net income stated in the parent company only financial reports or individual financial reports, paid by the Company and by all consolidated entities (including this company) for the most recent two fiscal years to each of the Company's directors, independent directors, general managers, and deputy general managers. Also describe the policies, standards, and packages for payment of remuneration, the procedures for determining remuneration, and its linkage to business performance and future risk exposure.

(1) The total remueration as a percentage of net income stated in the parent company only financial statemet, paid by the Company and by all consolidated entities in the most recent two years to directors, president, and vice president of the Company are as the following:

Unit: NTD thousand; %

Title		2018		2017	
		Total Remuneration	% of Net Income	Total Remuneration	% of Net Income
The Company	Directors (including independent directors)	7,174	2.00	8,123	2.96
	President & Vice Presidents	5,335	1.49	6,346	2.32
Companies in the consolidated statements	Directors (including independent directors)	19,848	5.53	20,896	7.63
	President & Vice Presidents	7,146	1.99	8,171	2.98

(2) Policies, standards, and packages for payment of compensation, as well as the procedures followed for determining the compensation, and their linkages to business performance and future risk exposure.

A. According to the Articles of Incorporation of the Company, if the general financial statement results in a surplus, the Board of Directors will decide and report to the shareholders' meeting whether or not to distribute no more than 5% of the surplus as the remuneration of the Board. The remuneration paid to each manager includes salary, allowances, various bonuses, issuance of restricted stock awards, and so on, which is determined by the scope of responsibility a position is involved, operational performance for achieving the Company's business goals, individual performance, educational level and past experiences; the salary range is determined with reference to positions of the same nature in the same industry.

B. The Board of Directors has decided, as of December 29, 2015, to distribute monthly fixed remuneration to independent directors, with a fixed remuneration of NT$600,000 per year. For those serving less than a year, remuneration is calculated based on the proportion of months since elected to the entire year. Directors' remuneration of independent directors who are not involved in the annual appropriation of earnings.

3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

The Company had convened 8 Board of Directors meetings in 2018 with the following attendance:

Title	Name	Attend in Person	By Proxy	Attendance Rate (%)	Note
Chairman	Johnny Chueh	8	0/	100	
Vice Chairman	Hsiung Wei Tseng	8	0	100	
Director	Yi Hui Kuo	3	0	75	Term expired on June 29, 2018. Attended 4 board meetings in 2018.
Director	Chung Hui Cheng	7	0	88	
Director	Yi Chun Wu	1	0	100	Elected on June 29, 2018, and resigned on August 6, 2018. Attended 1 board meeting in 2018.
Independent director	Chi Sheng Huang	4	0	100	Term expired on June 29, 2018. Attended 4 board meetings in 2018.
Independent director	Ming Cheng Chang	8	0	100	Elected on June 29, 2018. Attended 4 board meetings in 2018.
Independent director	Hung Wen Lin	7	0	88	
Independent director	Neng Mou Tu	3	0	75	Elected on June 29, 2018. Attended 4 board meetings in 2018.

Other mentionable items:

I. In accordance to the list of matters prescribed in Article 14-3 of the Securities and Exchange Act, and that when independent directors have dissenting or qualified opinions, they shall be clearly recorded in the minutes of the directors meeting, with date, session, content of the proposal, opinions of the independent directors and the Company's response to their opinion:
   1. Regulations from Article 14-3 is not applicable sine the Company has already established an Audit Committee.
   2. In addition to the aforementioned maters, any other resolutions from the Board of Directors where an Independent Director expressed a dissenting or qualified opinion that thas been recorded or stated by writing: None.

II. When Directors abstain themselves for being a stakeholder in certain proposals, the name of the Directors, the content of the proposal, reasons for abstentions and the results of voting counts should be stated.
   1. During the review of candidacy for the Board of Directors (including independent directors) on May 7, 2018, Johnny Chueh recused himself due to conflict of interests when his qualification was being reviewed. Remaining attending directors unanimously approved his candidacy, and submitted to the 2018 Annual General Meeting for voting.
   2. During the review of candidacy for the Board of Directors (including independent directors) on May 7, 2018, Hsiung Wei Tseng recused himself due to conflict of interests when his qualification was being reviewed. Remaining attending directors unanimously approved his candidacy, and submitted to the 2018 Annual General Meeting for voting.
   3. During the review of candidacy for the directors (including independent directors) on May 7, 2018, Ming Cheng Chang recused himself due to conflict of interests when his qualification was being reviewed. Remaining attending directors unanimously approved his candidacy, and submitted to the 2018 Annual General Meeting for voting.
   4. During the review of candidacy for the Board of Directors (including independent directors) on May 7, 2018, Hung Wen Lin recused himself due to conflict of interests when his qualification was being reviewed. Remaining attending directors unanimously approved his candidacy, and submitted to the 2018 Annual General Meeting for voting.
   5. Regarding the discussion of the acquisition of Peng Chun Industrial Co., Ltd equity case on August 13, 2018, director Chueh Ching Cheng recused himself due to conflict of interests; proposal was approved after vice chairperson Tseng Hsiung Wei consulted the remaining attending directors.
   6. On November 12, 2018 the Company discussed second phase of acquiring Peng Chun Industrial Co., Ltd, director Chueh Ching Cheng recused himself due to conflict of interests; proposal was approved after vice chairperson Tseng Hsiung Wei consulted the remaining attending directors.

III. Goals to enhance the Board's operations and evaluation of implementations:
   1. The board of directors shall direct company strategies, supervise the management, and be responsible to the Company and shareholders. The various procedures and arrangements of its corporate governance system shall ensure that, in exercising its authority, the board of directors complies with laws, regulations, its articles of incorporation, and the resolutions of its shareholders meetings.
   2. The Company established the Compensation Committee on August 7, 2015 to periodically assess and stipulate remuneration of directors and managers, as well as to regularly review the policies, systems, standards, and structures of directors and managers' performance appraisal and salary remuneration. Please refer to page 22-23 of this annual report for the operation of the Compensation Committee.
   3. The Company establish the Audit Committee on Decembeer 21, 2015 to exercise the functions and powers stipulated in the Securities Exchange Law, the Company Law, and other related laws and regulations. The Committee supports the Board of Directors in supervising the quality and integrity of the Company's accounting, auditing, and financial reporting procedure and control. Please refer to page 18 of this annual report for the operational status of the Audit Committee.
   4. The Company completed the renewal of the entire Board of Directors' liability insurance in August 2018 to strengthen the Company's risk management and to protect shareholders' equity. As well as to encourage directors to fulfill their duties and do their part.
   5. Every year the Directors select training courses in fields beyond their professional background, with topics covering corporate governance such as finance, risk management, sales, business affairs, legal affairs, accounting, corporate social responsibility, internal control system, or financial reporting responsibility to enhance the directors' knowledge of corporate governance and its implementation. Please refer to page 27 of this annual report for the training status.

3.4.2 Audit Committee:

1. The major funtions and resolutions of the Audit Committee are as the following:
   - enactment / amendment of internal control system
   - assessment the effectiveness of the internal control system
   - enactment / amendment of the Procedures for the Acquisition and Disposal of Assets, the trade of derivatives, loaning of funds, making of endorsement/guarantees, and other significant financial business acts
   - matters related to directors' personal interests
   - material assets or financial derivatives transactions
   - material loan, endorsement, or guarantee proposals
   - raising, issuance, or privately placement of securities with equity nature.
   - appointment, dismissal, or remuneration of independent auditors.
   - appointment and dismissal of finance, accounting, or internal audit supervisors.
   - financial statements review
   - other major matters prescribed by the Company or the Authority.

2. The Company had convened 7 Audit Committee meetings in 2018 with the following attendance:

Title	Name	Attend in Person	By Proxy	Attendance Rate (%)	Note
Independent director	Ming Cheng Chang	7	0	100	
Independent director	Hung Wen Lin	6	0	86	
Independent director	Neng Mou Tu	2	0	67	Elected on June 29, 2018, and attended 3 meetings in 2018.
Independent director	Chi Sheng Huang	4	0	100	Term expired on June 29, and attended 4 meetings in 2018.

Other mentionable items:

I. If any of the following circumstances occurs in the operation of the Audit Committee, it shall describe the date, period, the meeting content, the resolution results of the Audit Committee and the Compan's treatment for the opinions of the Audit Committee.

1. Matters prescribed in Article 14-5 of the Securities and Exchange Act (please refer to page 29-31 of this annual report): after obtaining consent from more than half members of the Audit Committee, the resolutions are submitted for approval to the Board of Directors. No condition in which consent from the Audit Committee had not been received, but the resoultion had been approved by two-thirds of all Board of Directors members had occurred.
2. Except the items in the preceding issues, other resolutions which was not approved by the Audit Committee but approved by two-thirds of all the Directors: None.

II. Ways in which independent directors have abstained from motions that pose a conflict of interest, the independent director's name, the content of the motion, cause of the conflict of interest, and the circumstances of the vote shall be elaborated: None.

III. Communication between independent directors and internal audit manager and CPAs (for example, material matters, methods, and results of audits of the Company's financial and business condition, etc.):

1. The audit manager shall give audit reports to the independent directors on a regular basis, and the independent directors had no objections in 2018. At the end of every fiscal year, the audit manager shall report to the independent directors regarding the implementation of the audit plan and evaluation outcome and, concurrently, issue a Statement of Internal Control System.
2. Chief financial officer and audit manager of the Company shall attend every Audit Committee meeting. In response to the reports and discussion matters, independent directors shall provide professional opinions, and relevant personnel of the Company shall respond and continue to track progress.
3. The Accountant communicates with the governance unit (including the Audit Committee made up of independent directors) regularly face-to-face or in writing; attends the Audit Committee and Board of Directors meetings when required, and the Audit Committee shall issue an evaluation report on the annual financial statement.

3.4.3 Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"

<table>
<tr><th rowspan="2">Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviation from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Abstract Illustration</th></tr>
<tr><td>1. Does the Company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?</td><td>V</td><td></td><td>The Company establlished its the "Code of Practice for Corporate Governance" based on the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies."</td><td>No significant difference</td></tr>
<tr><td>2. Shareholding structure and shareholders' rights
(1) Does the Company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations and implement based on the prodecure?
(2) Does the Company possess the list of its major shareholders as well as the ultimate owners of those shares?
(3) Does the Company establish and execute the risk management and firewall system within its onglomerate structure?
(4) Does the Company establish internal rules against insiders trading with undisclosed information?</td><td>V</td><td></td><td>(1) The Company appoints a spokesperson and a professional agent for stock affairs to handle shareholders' recommendations, stock affairs and serves as a channel for communication, and when in litigation will commission a legal counsel to handle the issue.
(2) The Company has specialized staff to handle relevant matters, and appoints an agent for stock affairs to be responsible for and handling of all shareholding related matters, thus aware of the major shareholders in control of the Company, as well as the final controllers of major shareholders, while maintaining a good relationship with major shareholders.
(3) The Company has established "Management of Related Parties, Specific Companies and Group Companies," "Computerized Information System Handling Procedure," and "Major Internal Information Processing Procedures" to clearly define information and staff control mechanisms and firewall measures.
(4) The Company has established "Internal Major Information Processing Procedure" and "Prevention of Insider Trading Management Procedure" to prohibit internal persons from using undisclosed information to purchase or sell securities.</td><td>No significant difference</td></tr>
<tr><td>3. Composition and Responsibilities of the Board of Directors
(1) Does the Board develop and implement a diversified policy for the composition of its members?
(2) Does the Company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?
(3) Does the Company establish a standard to measure the performance of the Board, and implement it annually?
(4) Does the Company regularly evaluate the independence of CPAs?</td><td>V</td><td></td><td>(1) According to the "Rules for election of directors," the Company clearly indicates the approach and methodology to keep the Board diversified. Currently the 6 directors are in professions such as management, accounting, commerce, media, and ship building. They are also diversified in terms of gender and nationality according to the diversification policy.
Diversification status:
<table>
<tr><th></th><th>Operational judgment & management decision</th><th>Leadership & decision-making capability</th><th>Knowledge of the industry</th><th>Law, accounting & financial knowledge</th><th>Global vision & crisis management</th></tr>
<tr><td>Johnny Chueh</td><td>V</td><td>V</td><td>V</td><td></td><td>V</td></tr>
<tr><td>Hsiung Wei Tseng</td><td>V</td><td>V</td><td>V</td><td></td><td>V</td></tr>
<tr><td>Chung Hui Cheng</td><td>V</td><td>V</td><td>V</td><td></td><td>V</td></tr>
<tr><td>Ming Cheng Chang</td><td>V</td><td>V</td><td></td><td>V</td><td>V</td></tr>
<tr><td>Hung Wen Lin</td><td>V</td><td>V</td><td></td><td></td><td>V</td></tr>
<tr><td>Neng Mou Tu</td><td>V</td><td>V</td><td></td><td>V</td><td>V</td></tr>
</table>
(2) Apart from setting up the Remuneration Committee and Audit Committee, the Company has not yet set up other functional committees. New committees will be set up based on future needs and regulation requirements.
(3) The Company regularly evaluates the performance of the Board of Directors, and adopts a "Procedure for Board of Directors Performance Appraisal" to clearly define the methodology for evaluation.</td><td>No significant difference</td></tr>
</table>

<table>
<tr><td></td><td></td><td></td><td>(4) The Company commissions a reputable accounting firm for auditing and certification, which is appointed annually by the Board of Directors after the evaluation of the accounting firm's independency. Evaluation procedure is as follows:
<table>
<tr><th>Items for evaluation</th><th>Complied</th></tr>
<tr><td>The accountant has no direct or indirect financial interest with the Company.</td><td>Yes</td></tr>
<tr><td>The accounting firm does not have any mutual financing with or the Company.</td><td>Yes</td></tr>
<tr><td>The accounting firm does not have any abnormal business relations with the Company or directors/managers.</td><td>Yes</td></tr>
<tr><td>The relatives of the auditing team members are not employed as directors, managers, or positions that have direct influence to auditing work.</td><td>Yes</td></tr>
<tr><td>Independence of the accounting firm or the auditing team.</td><td>Yes</td></tr>
<tr><td>The Company does not have any improper acts of giving presents or special offers to the auditing team members.</td><td>Yes</td></tr>
<tr><td>The accountant cannot serve as the chief accountant of the Company for more than 7 years, and requires at least 2 years of lag time before returning.</td><td>Yes</td></tr>
<tr><td>The independence of the accountant is not influenced by the non-auditing services provided by the accountant.</td><td>Yes</td></tr>
<tr><td>Obtain a "Statement of Independence" from the accountant.</td><td>Yes</td></tr>
</table></td><td></td></tr>
<tr><td>4. Does the Company designate a full-time (part-time) unit or personnel to take charge of the Company's governance businesses (including but not limited to providing required data to the directors and supervisors, performing related events of the Board and the shareholder meetings by law, conduct the Company's registration and the amendment of the registration)?</td><td>V</td><td></td><td>The secretary of the Board of the Directors prepares information needed by the directors and independent directors to carry out business, organizes board meetings and shareholder meetings, handles company registration and change of registration affairs, as well as produces board and shareholders meeting proceedings.</td><td>No significant difference</td></tr>
<tr><td>5. Does the Company setup communication channels between the investors (including but not limited to the shareholders, employees and suppliers), establish the Investor Relation area on the Company's website and respond to the issues of corporate social responsibilities concerned by the investors?</td><td>V</td><td></td><td>The Company's major stakeholders include shareholders/investors, government units, local communities, employees, suppliers, and so on. To respect the rights and interests of the stakeholders, multiple communication channels are provided, including providing a stakeholder section on the Company website; through appropriate communication methods to better understand stakeholders' expectations and needs, we can effectively address issues related to corporate social responsibility.</td><td>No significant difference</td></tr>
<tr><td>6. Does the Company appoint a professional shareholder service agency to deal with shareholder affairs?</td><td>V</td><td></td><td>The Company commissions KGI Securities as the agent for stock affairs to handle matters related to shareholding.</td><td>No significant difference</td></tr>
<tr><td>7. Information Disclosure
(1) Does the Company have a website to disclose both financial standings and the status of corporate governance?
(2) Does the Company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?</td><td>V</td><td></td><td>(1) In accordance with the law, the Company discloses financial business information on the Market Observation Post System (MOPS) website of the Taiwan Stock Exchange. The Company's website also provides financial and corporate governance information for stakeholders' reference.
(2) The Company has an English website to disclose relevant information, as well as appoints a spokesperson and acting spokesperson, and designates special staff to be in charge of the collection and disclosure of company information. Information of shareholders meetings and legal briefings is also provided on the Company's website.</td><td>No significant difference</td></tr>
<tr><td>8 Is there any other important information to facilitate a better understanding of the Company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?</td><td>V</td><td></td><td>1. In accordance with the provisions of the Labor Standards Act, the Company has established an Employee Welfare Committee and Labor Union to ensure employees' rights and interests. Employees enjoy benefits such as group insurance, regular health check-ups, corporate retreats, and are provided with channels to file complaints. Valuing a harmonious relationship between employees and the Company, regular labor meetings are also held.
2. In accordance with the law, the Company discloses its information truthfully so as to protect the rights of investors and stakeholders, fulfilling the Company's responsibility to the shareholders.
3. Due to industrial characteristics of the Company, apart from some raw materials that have specific suppliers, the Company categorizes suppliers based on the risk and quality evaluation of suppliers,</td><td>No significant difference</td></tr>
</table>

			and communicate with them regularly through emails and phone calls to understand the supply situation, and to maintain good relationships. 4. The directors and independent directors of the Company have professional background and actual business management experiences. They are provided with training regularly and are covered by liability insurance to strengthen corporate governance and to safeguard shareholders' equity. 5. Risk management and measuring standard of the Company is based on a comprehensive evaluation by various departments. Major risk concerns are reported to the Board of Directors. 6. The Company develops plans for the succession of and candidates for the directors, based on future operational developments. It also plans to standardize processes to assess and develop potential employees as key players for long-term training in order to ensure that the supply of talents does not form any gaps. The Company has assigned a dedicated director of talent development, holds regular meetings to discuss and review the succession planning and key talent cultivation of the Company's management. The personal development plan will be developed according to one's professional capability and the job requirements. The plan includes management capability training and a mentor system, regular work interviews, in the hope to assist key talents to develop professional capabilities closer to the Company's business strategy and to cultivate a full range of management talents.	
9. The Company shall describe the improvements with reference to the corporate governance evaluation results issued by the CG Center of Taiwan Stock Exchange Corporation, and shall make available the prioritized enhanced measures for the matters that have not been improved.	The Company carried out corporate governance self-evaluation yearly according to the regulations of the Stock Exchange, and compiles items with no scores. The responsible units are requested to make improvements accordingly, in the hope that it will meet the requirements of the evaluation indicators, so as to strengthen the corporate governance system.			

3.4.4 Composition, Responsibilities and Operations of the Compensation Committee

(1) Composition of the Compensation Committee

Title	Criteria / Name (Note 1)	Have more than 5 years of experience and the following professional qualifications			Independence Criteria (Note 2)								Number of other public companies where the individual is concurrently serving as a compensation committee member	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 college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist 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	Hung Wen Lin	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-
Independent director	Ming Cheng Chang	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	-
Independent director	Neng Mou Tu	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	-

Note 1: Existing independent directors as of the publication date of this annual report.

Note 2: If any of the following conditions is applicable to the members within 2 years before being elected and during the term of office, please put the "✓" sign in the appropriate box below;

1. Not an employee of the Company or its affiliates.
2. Not a director or supervisor of the Company or its affiliates. Except for the independent directors that are appointed by the Company or the parent company and subsidiaries in accordance with this Law or the local law.
3. Not a natural person, spouse, minor children, or under the title of a third party who holds more than 1% of the outstanding shares issued by the Bank or among the top 10 natural person shareholders.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is 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 Company or to 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.

(2) Operation of the Compensation Committee

A. The Remuneration Committee of the Company is consisted of 3 members.

B. Term of office of current committee members: June 29, 2018 to June 28 2021. The Remuneration Committee has convened for 3 times in the most recent year (2018). The qualifications of the members and their attendance to the meetings are shown below:

Title	Name	Attend in Person	By Proxy	Attendance Rate (%)	Note
Convener	Chi Sheng Huang	2	0	100	Term expired on June 29, 2018
Convener	Hung Wen Lin	3	0	100	Elected as the convener of the Remuneration Committee on June 29, 2018
Member	Ming Cheng Chang	3	0	100	
Member	Neng Mou Tu	1	0	100	Elected on June 29, 2018

Other mentionable items:

I. Where the Board may not take or revise the advice of the Remuneration Committee, specify the date and the session of the Board, the content of the motion, the resolution of the Board, and the response to the opinions of the Company towards the advice of the Remuneration Committee (if the resolution of the Board suggested better position of remuneration than the advice of the Remuneration Committee, specify the reasons and the variations): None.

II. Where members of the Remuneration Committee may have adverse opinions or qualified opinions in their resolutions on record or in written declaration, specify the date and session of the committee, the content of the motion, the opinions of all other members, and the responses to the adverse opinions: None.

Operation of 2018 Compensation Committee:

Term & Date	Agenda	Results and handling of the resolution	The Company's feedback to the compensation committee's opinions
1st Term 9th meeting 2018.03.30	1. Formulate fiscal year 2018 Remuneration Committee work plan. 2. Review the list of proposed remuneration projects to be implemented in fiscal year 2018. 3. Remuneration distribution of employees, directors, and supervisors in fiscal year 2017. 4. The Company established a mentorship system and award system.	Approved by all attending committee members	Approved by all attending directors of the Board
1st Term 10th meeting 2018.05.07	1. Employee remuneration distribution in 2017 (including managers). 2. The Company issued a recipient list of restricted stock awards for fiscal year 2017 and set a record date for capital increase.	Approved by all attending committee members	Approved by all attending directors of the Board
2nd Term 1st meeting 2018.08.13	1. The Company issued a list of the restricted stock awards recipients for fiscal year 2018 and set a record date for capital increase.	Approved by all attending committee members	Approved by all attending directors of the Board

3.4.5 Corporate Social Responsibility:

Item	Implementation Status			Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Corporate Governance Implementation (1) Does the Company declare its CSR policy and examine the results of the implementation? (2) Does the Company provide educational training on corporate social responsibility on a regular basis? (3) Does the Company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board? (4) Does the Company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?		V	(1) The Company set up a "Code of Good Practice for Corporate Social Responsibility" as a basis for fulfilling its social responsibility; it is committed to environmental protection, social welfare, consumer rights, and improving corporate-labor relations. (2) The Company's "Work Rules" specifies employee rights and the code of conduct to be followed, as well set up the "Ethical Code of Conduct," "Prevention of Insider Trading Management Procedures," and "Integrity in Management Procedure and Behavior Guideline," to instruct directors, managers, and employees on ethical business practices and social responsibilities. (3) The Company has yet to set up a unit specially or partly for promoting corporate social responsibility. Currently, each department, through their work scope, tries its best to fulfill corporate social responsibility. (4) Based on the existing foundation for corporate social responsibility, the Company has established "Work Rules," salary and awarding system, using employee performance, ability, attitude, and behavior as the measures for performance appraisal, and to provide incentives or disincentives accordingly.	The Company will establish exclusively (or concurrently) dedicated first-line team in the future, depending on the regulations requirement and corporate development needs. No major differences with the rest.
2. Sustainable Environment Development (1) Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment? (2) Does the Company establish proper environmental management systems based on the characteristics of their industries? (3) Does the Company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		(1) Improvement of resource utilization efficiency 1. Waste disposal: The factory continues to promote waste reduction, sorting, recycling, and reuse policy, and entrusts legal vendors approved by the Environmental Protection Agency to carry out waste cleaning and removal. At the same time, promoting the occupational safety and health management system. 2. Water treatment: The Company has two rainwater collection tanks (with storage capacity of 2,160 cubic meters). To reduce water consumption during manufacturing, recycled water is used for these activities, such as splashing water to prevent staining of the ground, ship cleaning after completion, testing for water leakage, and overall cleaning. 3. Electricity: The factory area installed solar panels and administrative offices use LED light bulbs, saving up to 550,000 watt-hour/year of electricity. 4. The Company purchased waste solvent recovery equipment where waste solvent produced daily are recycled and processed, with every 75 liters of waste solvent to be recycled to reproduce 40 liters of solvent that can be reused for cleaning purposes. (2) Due to the characteristics of our industry that requires the use of certain solvents, the Company has set up organic solvent operation procedures according to the regulations and received "Stationary pollution source operating permit" from the Department of Environmental Protection. Concurrently, the Company has established safety and health policy and related training courses, and conducts environmental safety auditing from time to time. (3) The Company promotes the concept of energy saving and carbon reduction from time to time, with specific measures such as installing solar panels, changing to energy efficient light bulbs, improving the efficiency of air compressors, and so on, as well as, increasing employees' awareness for sustainable environmental development through slogan posters.	No significant differences
3. Preserving Public Welfare (1) Does the Company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights? (2) Has the Company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		(1) The Company abides by the Labor Standards Act and related regulations by establishing the "Work Rules" and provides pensions to protect the rights of employees, as well as setting up the Welfare Committee and Labor Union to handle and fight for employee benefits, and irregularly holding labor-corporate meetings for better communication. (2) The Company provides multiple channels for communication, such as the special complaint hotline and mailbox, or employee contact page on the Company website, allowing opportunities for proposing system changes, personnel interviews, and so on. As specified in the "Work Rules," the Company shall provide an employee suggestion box, hotline, and mailbox for filing complaints or reporting any	No significant differences

(3) Does the Company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis? (4) Does the Company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them? (5) Does the Company provide its employees with career development and training sessions? (6) Does the Company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service? (7) Does the Company advertise and label its goods and services according to relevant regulations and international standards? (8) Does the Company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships? (9) Do the contracts between the Company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?			unethical acts, sexual harassment at the workplace, or illegal acts. The management unit will handle and assign relevant units to address these issues. (3) The Company installs the necessary health and emergency measures — includes putting together a "Guideline for Workplace Safety and Health," organizes safety and hygiene training regularly, provides employees with health check-ups, installed fire protection facilities with regular maintenance — to provide employees with a safe and healthy work environment, and be committed to reducing occupational hazards that threaten employee safety and health. (4) A labor union is established to serve as a bridge between employees and the Company. Apart from organizing labor meetings regularly, the Company also organizes regular managerial and departmental meetings, not only to discuss important matters but also to improve the communication among departments and between supervisors and employees. (5) We provide employees with internal and external training on a regular basis. When a job vacancy is available, the Company seeks employee's intentions before making arrangements for job transfer and training. In addition, the HR department holds seminars from time to time to build employee versatility and enhance unity among them. (6) The Company has established solid internal control measures and methods for R&D, procurement, production, operation, and service procedures. When delivering a product to a customer, the quality control department will sign off and issue a Quality Assurance to the customer, ensuring high quality product and trustworthy warranty. (7) Marketing and labeling of products and services are in compliance with the regulations and international standards; trademark ownership has been registered with the responsible agency. (8) To maintain a long-term partnership and honor social sustainability with the suppliers, the Company will fill out a "Supplier Evaluation form" to select exceptional suppliers when making business contact with new suppliers. (9) We do not include a term of agreement in the supplier's contract regarding the supplier side of corporate responsibility. Only when there is any significant violation by the supplier side that impacts the society will the Company uphold its corporate social responsibility and take necessary actions towards the supplier.	
4. Enhancing Information Disclosure (1) Does the Company disclose the relevant and reliable CSR information on the Company's website and the Market Observation Post System (MOPS)?	V		According to regulations, the Company publishes and discloses information related to corporate social responsibility (including information on corporate governance and employee rights), through providing information relevant to shareholders and investors on corporate governance, employee welfare system, and posting relevant and accurate information on the investors page of the Company website, to safeguard the rights of shareholders and investors and enhance information transparency.	No significant differences

5. If the Company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the Principles and their implementation: No major difference.

6. Other important information to facilitate better understanding of the Company's CSR practices:
   1. The Company, from time to time, participates in charity and community activities, giving back to local neighborhoods through activities such as donation of employees' unused items, purchase of agricultural products for distribution to employees, adoption of green land, and so on.
   2. The Company's factory is located within an industrial park where we adopt the universal environmental contamination prevention standard set by the industrial park, and accepts regular and irregular check-ups and supervision from the Environmental Protection Bureau.
   3. We are proactive in addressing environmental protection issues. In accordance with the regulation, the factory is equipped with canvas to prevent exhaust gas from diffusing. We also followed the proper procedures for the application of stationary pollution source certification.
   4. The Company's "Work Rules" on the utilization of human resources such as recruitment, appointment, training, promotion, assessment, and so on, do not give special treatment based on gender, ethnical, social class, age, marital status and family condition to any employee. Every employee shall be treated equally.
   5. The Company values capacity building of staff and employee welfare by establishing diversified training courses and a robust remuneration system. At the same time, we collaborate with local universities to launch industry-university cooperation, making the Company a talent dream factory.
   6. Employed more than the required number of employees with physical and mental disabilities. The Company is required to employ 4 people, and currently has 8 people onboard.

7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions:
   The Company has not yet met the statutory requirement to publish corporate social responsibility reports. However, depending on future situations and regulatory requirements, we will cooperate as needed.

3.4.6 Ethical Corporate Management

Item	Implementation Status			Deviations from "the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs (1) Does the Company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies? (2) Does the Company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies? (3) Does the Company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	V		(1) We have established corporate rules and regulations including the "Code of Integrity," "Integrity in Management Procedure and Behavior Guideline," and "Ethical Code of Conduct," to prevent and handle dishonest acts through precautionary measures, operational procedures, and an appeal system, and have clearly established relevant policies and reporting channels for conflict of interests to ensure managerial level and directors abide to them as well. (2) The "Integrity in Management Procedure and Behavior Guideline" includes preventative measures of dishonest actions, operational procedures, and appeal system, and the Company follows through with actual implementation. (3) The Company has established preventative measures in the "Code of Integrity" as required by Article 7-2 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies," which requires companies to establish preventive measures for business scope that are of a higher risk of unethical conduct behavior.	No significant differences
2. Fulfill operations integrity policy (1) Does the Company evaluate business partners' ethical records and include ethics-related clauses in business contracts? (2) Does the Company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity? (3) Does the Company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it? (4) Has the Company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis? (5) Does the Company regularly hold internal and external educational trainings on operational integrity?	V		(1) The "Code of Integrity" clearly states that before engaging in business dealings, the Company shall consider the legality and integrity of agents, suppliers, clients, or companies with business transactions, and ensure to avoid having business transactions with those that have unethical records. (2) The general manager's office heads the Company's authority unit who is responsible for supervising and monitoring any unethical practice within the Company. Whenever necessary, it will evaluate its implementation outcomes and continue to improve and strive for a better ethical corporate management. (3) The "Ethical Code of Conduct" clearly prescribed policy to address conflict of interest issues, and the Company encourages anyone to report illegal acts or unethical practices. (4) To ensure the implementation of ethical corporate management, the Company establishes an effective accounting system and internal control system where internal auditing members will regularly assess every procedure of the internal control system and prepare audit reports for the Board of Directors. (5) Some of the Company's supervisors participate in external seminars on ethical corporate management and corporate social responsibility and promote these concepts and standards internally through managerial level meetings.	No significant differences

3. Operation of the integrity channel (1) Does the Company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up? (2) Does the Company establish standard operating procedures for confidential reporting on investigating accusation cases? (3) Does the Company provide proper whistleblower protection?	V		(1) The "Employee Reward and Penalty Measures" and the "Work Rules" specify the system for filing reports and reward and penalty. The Company website has contact information for various stakeholders to file reports as an approach to realize the operation of the reporting system. (2) Regarding the ethical corporate management measure, the Company has established the necessary investigation standard, operation procedure, and a mechanism for confidentiality. (3) The informer is kept confidential and protected by the Company, and will not be subjected to any inappropriate treatment.	No significant differences
4. Strengthen information disclosure (1) Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company's website and MOPS?	V		According to the law, the Company discloses information on the outcome of implementing ethical corporate management on the website for public information in a timely manner, as well as maintaining a sustainable business page providing related corporate governance information about the system and procedures on the Company's website.	No significant differences
5. If the Company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation: no major discrepancy.				
6. Other important information to facilitate a better understanding of the Company's ethical corporate management policies (e.g. review and amend its policies): The Company keeps monitoring the changes of domestic and international regulations and will amend the "Code of Integrity" when necessary to enhance the implementation of ethical corporate management.				

3.4.7 Corporate Goernance Guidelines and Regulations:

Please refer to the Company's website under Policy and Policy & Regulations section.

3.4.8 Other Important Information regarding Corporate Governance:

1. Continuous trainings and courses related corporate governance taken by the Directors:

Title	Name	Date	Organizer	Course name	Hours
Chairman	Johnny Chueh	2018/05/08	Taiwan Securities Exchange Corporation	Newest version of The Corporate Governance Blueprint for Listed Companies Summit Forum	3
		2018/09/04	Taiwan Institute of Directors	The Challenges of Governance – Reengineering and Transforming Corporate Value Competitiveness	3
Director	Hsiung Wei Tseng	2018/05/08	Taiwan Securities Exchange Corporation	Newest version of The Corporate Governance Blueprint for Listed Companies Summit Forum	3
		2018/05/23	Securities and Futures Development Foundation	Corporate Strategy and Key Performance Indicators – Advanced Practical Seminar for Directors and Supervisors (including independent directors)	3
		2018/09/04	Taiwan Institute of Directors	The Challenges of Governance – Reengineering and Transforming Corporate Value Competitiveness	3
Director	Chung Hui Cheng	2018/08/09	The Business Council for Sustainable Development of Taiwan	Sustainable Supply Chain Management – The Connection between Trade and Corporate Social Responsibility	3
		2018/09/04	Taiwan Institute of Directors	The Challenges of Governance – Reengineering and Transforming Corporate Value Competitiveness	3
Independent director	Ming Cheng Chang	2018/03/05	Taiwan Depository and Clearing Corporation	100% Electronic Voting and Enhancement of Corporate Value Forum	6
Independent director	Hung Wen Lin	2018/12/07	Taiwan Corporate Governance Association	Audit Committee Operational Practice	3
		2018/12/25	Taiwan Corporate Governance Association	Starting with the Case in Dispute – The Impact of Recent Corporate Law Amendments on Corporate Governance	3
Independent director	Neng Mou Tu	2018/09/28	Taiwan Corporate Governance Association	Analysis of Enterprise Financial Crisis Warning System and Various Models	3
		2018/12/13	Securities and Futures Development Foundation	Analysis of Enterprise Financial Crisis Warning System and Various Models	3

3.4.9 Internal Control System

1. Statement of Internal Control System

Alexander Marine Co., Ltd.

Internal Control System Statement

Date: March 18, 2019

For the Company's internal control system of 2018, we would like to declare as follows according to the results of spontaneous inspections:

I. The Company knows that establishing, enforcing, and maintaining an internal control system is the responsibility of the Company's Board of Directors and managers and has such a system in place already. It is meant to reasonably ensure fulfillment of the operational efficacy and efficiency (including profits, performance, and protection of asset security), reliability of financial reports, and compliance with applicable laws and regulations, among other goals.

II. The internal control system has its inherited restrictions that cannot be overcome with improved design. An effective internal control system can also only reasonably ensure the fulfillment of the three goals stated above and its effectiveness may change as the environment or situation changes. There is a self-surveillance mechanism; however, built inside the internal control system of the Company that helps the Company take a corrective action against deficiencies confirmed.

III. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Governing Regulations for Public Company's Establishment of Internal Control System" (hereinafter referred to as "Governing Regulations") that are related to the effectiveness of internal control systems. The items adopted in the Governing Regulations for determining the internal control system are the five constitutional elements of the internal control system divided according to the management and control process: 1. control environment, 2. risk assessment, 3. control process, 4. information and communication, and 5. supervision. Each element further encompasses several items. Please refer to "Governing Regulations" for details.

IV. The Company has adopted the abovementioned determining items and conducted inspection of the design and effectiveness of its internal control system.

V. Pursuant to the results of the abovementioned inspections, the Company is of the view that the design and implementation of its internal control system as of December 31, 2018 (including its supervision and management of subsidiaries), including its awareness the extent by which the operating effects and efficiency goals are fulfilled, reliability of financial reporting, and compliance with relevant laws and regulations, are such that it is effective and capable of reasonably ensuring that the aforementioned goals can be achieved.

VI. This Statement constitutes a major part of the Company's Annual Report and the Company's Prospectus that are made available to the public. The Company shall be legally liable under -86- Articles 20, 32, 171 and 174 of the Securities and Exchange Act with respect to any unlawful aspects such as falsehood or concealment of facts in relation to the aforesaid statement.

VII. This Statement was approved at the meeting of the Company's Board of Directors on March 18, 2019 with no Directors expressing dissent out of the 6 Directors in attendance.

Alexander Marine Co., Ltd.

Chairman: Johnny Chueh

General Manager: Hsiung Wei Tseng

2. Disclose the review report of independent auditors if they are retained for reviewing the internal control system: Nne.

3.4.10 The punishment delivered to the Copany and the staff of the Company, or the punishment deliveredb the Company to the staff for a violation of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report printed:

The Labor Affairs Bureau of Kaohsiung City Government inspected the factory on May 21 and May 28, 2018 and discovered that the site at No.20, Tongli Rd., Xiaogang Dist., Kaohsiung City installed two sets of fixed cranes with a load of more than 3 metric tons, which are legally defined as dangerous machinery. Furthermore, these machines were installed and operated by staff without prior official inspection and approval. Per official letter of the Labor Affairs Bureau of Kaohsiung City Government Ref. No. 10771114700, a fine of NT$30,000 was issued. The Company paid the fine on June 22, 2018 and will strengthen its employee training to minimize the recurring of such negligence.

3.4.11 Resolutions reached in the Shareholders' Meeting or by the board of directors in the most recent years and up to the date of the annual report printed:

1. Major resolutions of the shareholders meeting

Date	Major Resolutions	Review of Execution
2018/06/29 (Annual General Meeting)	1. Adoption of the 2017 business report and financial statements. 2. Adoption of the proposal for distribution of 2017 earnings. 3. Amendment to the Company's guideline on "Management of Loans to Others." 4. Amendment to some articles in the Company's "Procedures for Financial Derivatives Transaction." 5. Amendment to the Company's "Procedures for Acquisition or Disposal of Assets". 6. Amendment to the Company's guideline on "Management of Endorsements and Guarantees." 7. Issuance of 2018 new employee restricted stock awards. 8. Election of the 7 Directors (including 3 independent directors). 9. Released of the newly-elected independent directors from the non-competition restrictions.	1. Proceeded according to resolution. 2. The record date of allocation of dividend was set on August 27, 2018 and other matters were proceeded accordingly. 3. Implemented accordingly. 4. Implemented accordingly. 5. Implemented accordingly. 6. Implemented accordingly. 7. Implemented accordingly. 8. According to the regulation announcement and completed the changes registration with the Ministry of Economic Affairs. 9. Proceeded according to resolution.

2. Major resolutions of the Board of Directors Meetings

Date	Major Resolutions
2018/02/26	1. Amendment of the Company's "Internal Control System" and part of the content on operational method. (Note) 2. The Company indirectly acquired related assets of the U.S.-based maintenance Company, Pacific Coast Yacht Service, Inc. (Note) 3. Application for line of credit with financial institutions. 4. Subsidiary AMI provided loans to U.S.-based second tier subsidiary MIBW. (Note) 5. The Company provided loans to subsidiary AMI. (Note) 6. Subsidiary AMI increased capital to U.S.-based second tier subsidiary AMUSA. (Note) 7. The Company provided endorsement and guarantee to subsidiary AMI. (Note)
2018/03/30	1. Employees and directors' remuneration distribution for fiscal year 2017. (Note) 2. Business report and financial review report for fiscal year 2017. 3. Appropriation of earnings for fiscal year 2017. (Note) 4. The Company's "Statement of Internal Control System" for fiscal year 2017. (Note) 5. Evaluation of the independence of the auditor. (Note) 6. The Company's appointment of the auditor for fiscal year 2018. (Note)

Date	Major Resolutions
	7. Application for line of credit with financial institutions. 8. Subsidiary AMI increased capital to the U.S.-based second tier subsidiary MIBW. (Note) 9. The Company increased capital to subsidiary AMI. (Note) 10. Brought forward the re-election of the entire Board of Directors and independent directors. 11. Proposed to the Board of Directors to nominate candidates for directors and independent directors. 12. Release of the newly elected directors (including independent directors) from the Non-Competition Restrictions. 13. Set the Company's fiscal year 2018 Annual General Meeting date and time, location, and reasons for convening. 14. Reorganization plan of overseas subsidiary companies. 15. Take back of the restricted stock awards issued in fiscal year 2016 and proceed with cancellation of the capital reduction case. (Note) 16. The Company provided loans to subsidiary AMI. (Note)
2018/04/27	To maintain the Company's credit and shareholders' equity, handle the first buying back of treasury stock and cancellation case.
2018/05/07	1. Review the qualification of candidates for directors (including independent directors) 2. The Company issued a list of recipients for the restricted stock awards for fiscal year 2017 and assigned a record date for capital increase. 3. Issuance of restricted stock awards for fiscal year 2018. 4. Amendment of the Company's guideline, "Management of Endorsements and Guarantees." (Note) 5. Update of Annual General Meeting agenda for fiscal year 2018. 6. Remuneration distribution of the Company's managers for fiscal year 2017.
2018/06/29	1. Election of this term's chairperson and vice chairperson. 2. Appointment of this term's Remuneration Committee members.
2018/08/13	1. Application for line of credit with financial institutions. 2. Appointment of auditing supervisors. (Note) 3. Approval of subsidiary AMI's handling of debt transfer for capital increase. (Note) 4. Approval of the expansion of factory and investment plan. (Note) 5. Approval of the acquisition of investment at equity method for Peng Chun Inudstrial Co., Ltd equity case. (Note) 6. Approval of the five-year period syndicated loan agreement. 7. Approval of subsidiary AMI to increase capital to U.S.-based second tier subsidiary AMUSA. (Note) 8. Approval of subsidiary AMI to increase capital in U.S.-based second tier subsidiary MIBW. (Note) 9. Approval of the issuance to the list of recipients for fiscal year 2018 restricted stock awards and set a record date for capital increase. 10. Approval of the take back of the 2017 fiscal year restricted stock awards and proceed with the cancellation of capital reduction case. 11. Approval of the capital reduction record date for the first buyback and cancellation of treasury stock.
2018/11/12	1. Approval of the audit plan for fiscal year 2019. (Note) 2. Approval of the amendment on "Internal Control System" and part of the content on operational method. (Note) 3. Approval of the application for line of credit with financial institution. 4. Approval of the corporation's consolidated budget for fiscal year 2019. 5. Approval of the Company's loan to subsidiary AMI. (Note) 6. Approval of take back of the restricted stock awards issued in fiscal year 2018, and proceed with cancellation of capital reduction case. (Note) 7. Approval of the acquisition of Peng Chun Industrial Co., Ltd equity. (Note) 8. Approval of the Company's loan to subsidiary AMI. (Note) 9. Approval of subsidiary AMI's loans to U.S.-based second tier subsidiaries MIBW and AMUSA (note). 10. Approval of the Company's endorsement and guarantee for subsidiary AMI. (Note)
2018/11/16	To maintain the Company's credit and shareholders' equity, handle the second buyback and cancellation of treasury stock. (Note)

Date	Major Resolutions
2019/01/21	1. Application for line of credit with financial institutions. 2. Take back of restricted stock awards and proceed with annulment of capital reduction case. (Note) 3. Subsidiary AMI provided loans to U.S.-based second tier subsidiary MIBW. (Note) 4. Subsidiary AMI's increase in capital to Australia-based second tier subsidiary Alexander Marine Australia Pty, Ltd (AMA) and U.S.-based second tier subsidiary Alexander Marine Enterprises Inc. (AME). (Note)
2019/03/18	1. Employees' and directors' remuneration distribution for fiscal year 2018. (Note) 2. Business report and financial review report for fiscal year 2018. (Note) 3. Appropriation of earnings for fiscal year 2018. (Note) 4. "Statement of Internal Control System" for fiscal year 2018. (Note) 5. Proposal to the Board of Directors to nominate one person for the director candidacy. 6. Release of the newly elected directors from the Non-Competition Restrictions. 7. Amendment of the Company's "Internal Control System" and part of the content on operational method. ◦ (Note) 8. Application for line of credit with financial institutions. 9. Set the date and time, location, and convening content of fiscal year 2019 Annual General Meeting. 10. Set capital reduction record date for the second buyback and cancellation of treasury stock.

Note: Items listed in Article 14-5 of the Securities and Exchange Act.

3.4.12 Major contents of any dissenting opinions on record or stated in a written statement made by Directors or supervisors regarding material resolutions passed by the Board of Directors' Meeting in the most recent years and up to the publication date of this annual report: None.

3.4.13 In the most recent year and up to the publication date of this report, a summayr of the resignation and dismissal of the Company personnel such as Chairman, President, accounting manager, financial manager, internal audit manager and R&D manager:

Title	Name	Effective Date (note)	Termination Date	Reason for Resignation or Termination
Internal audit manager	Yi Lung Fang	2017/01/05	2018/02/28	Resigned due to personal reasons.

Note: This is the official appointment date of the Board of Directors.

3.5 Information regarding the Company's Independent Auditors

3.5.1 Information on Audit Fees

Accounting Firm	Name of CPA		Audit Period	Note
Ernst & Young	Cheng Chu Chen	Fang Wen Li	2018	
Ernst & Young	Cheng Chu Chen	Fang Wen Li	2017	

Audit Fee Scale

Fee levels \ Fee items		Auditing fee	Non-Auditing fee	Total
1	Less than NT$2 million	-	975	975
2	NT$2 million (inclusive) ~ $4 million	-	-	-
3	NT$4 million (inclusive) ~ $6 million	4,200	-	4,200
4	NT$6 million (inclusive) ~ $8 million	-	-	-
5	NT$8 million (inclusive) ~ $10 million	-	-	-
6	More than NT$10 million	-	-	-

Unit: NTD thousand

Accounting Firm	Name of CPA	Audit Fee	Non-Auditing fee					Audit Period	Note
			System design	Corporate Registration	Human Resources	Others (Note 2)	Subtotal		
Ernst & Young	Cheng Chu Chen Fang Wen Li	4,200	-	451	-	524	975	2018	Note

Note: Other matters such as the issuance of a transfer pricing report of NT$300,000 and fees relating to listing of NT$224,000..

3.5.2 Replaced the audit firm and the audit fee paid to the new audit firm was less than the payment of the previous year: None.

3.5.3 Audit fee reduced more than 15% year over year:

The reduction was due to the adjustment of payment schedule.

3.6 Replacement of Independent Auditors: None

3.7 The Company's Chairman, President or Managers in charge of Finance or Accounting Has Been under Current Audit Firm or its Affiliates' Employment in the Most Recent Year: None.

3.8 Net Changes in Shareholding and Net Change in Shares Pledged by Directors, Management and Shareholders with 10% Shareholding or More

3.8.1 Changes in shares held by Directors, managers, and major shareholders

Unit: shares

Title	Name	2018		As of April 30, 2019	
		Increase (decrease) of shares held	Increase (decrease) shares pledged	Increase (decrease) of shares held	Increase (decrease) shares pledged
Chairperson and major shareholder	Johnny Chueh	-	-	-	-
Vice Chairman and President	Hsiung Wei Tseng	24,000	-	-	-
Director and major shareholder	Yi Hui Kuo (note 1)	-	-	-	-
Director	Chung Hui Cheng	(40,000)	-	-	-
Director	Yi Chun Wu (note 2)	-	-	-	-
Independent director	Chi Sheng Huang (note 3)	-	-	-	-
Independent director	Ming Cheng Chang	-	-	-	-
Independent director	Hung Wen Lin	-	-	-	-
Independent director	Neng Mou Tu	-	-	-	-
Major Shareholder	Bridgetop Global Company Limited	-	-	-	-
Chief financial officer	Yu Chou Huang	(3,000)	-	(19,000)	-
Assistant VP	Hsin Wen Huang	5,000	-	(18,000)	-
Manager of Engineering Division	Meng Yueh Ku	(1,000)	-	(12,058)	-
Internal Audit Manager	Yi Lung Fang (note 3)	-	-	-	-

Note 1: Term expired on June 29, 2018.
Note 2: Elected on June 29, 2018, and resigned on August 6, 2018.
Note 3: Term expired on June 29, 2018.
Note 4: Resigned on Feb 28, 2018.

3.8.2 Information of shares transferred: There is no party involved in shares transfer known as the related party.

3.8.3 Information of equity pledge: None.

3.9 Relationship among The Company's Top Ten Shareholders

As of April 7, 2019; Unit: share

Name		Shareholding		Shareholding under Spouse & Minor		Shareholding under the title of a third party		Name and relationship between the Company's top 10 shareholders, or spouses or relatives within two degrees of kinship		Note
		Shares	Proportion	Shares	Proportion	Shares	Proportion	Name	Relationship	
1	Bridgetop Global Company Limited	17,886,745	19.22%	-	-	-	-	-	-	
	Representative: Tim Hu	-	-	-	-	-	-	Ching Chia Chueh	Spouse	
2	Yi Hui Kuo	16,732,830	17.98%	15,671,849	16.84%	15,996,276	17.20%	Johnny Chueh Ching Chia Chueh	Spouse Second-degree relative	
3	Johnny Chueh	15,348,097	16.50%	17,056,582	18.32%	15,996,276	17.20%	Yi Hui Kuo Ching Chia Chueh	Spouse Second-degree relative	
4	Oberyn Investments LTD.	7,998,138	8.60%	-	-	-	-	-	-	
	Representative: -	-	-	-	-	-	-	Note	Note	
5	Stormlands Worldwide LTD.	7,998,138	8.60%	-	-	-	-	-	-	
	Representative: -	-	-	-	-	-	-	Note	Note	
6	Chung Hui Cheng	2,228,276	2.39%	1,992,574	2.14%	-	-	Nien Yun Chou	Spouse	
7	Ching Chia Chueh	2,164,612	2.33%	-	-	-	-	Johnny Chueh Yi Hui Kuo Tim Hu	Second-degree relative Second-degree relative Spouse	
8	Nien Yun Chou	1,992,574	2.14%	2,228,276	2.39%	-	-	Chung Hui Cheng	Spouse	
9	Rui Han Yang	845,478	0.91%	-	-	-	-	-	-	
10	Jian Liang Kuo	810,162	0.87%	-	-	-	-	-	-	

Note: Final beneficiary is a first-degree relative of the chairman.

3.10 Ownership of Shres in Affiliated Enterprises

As of December 31, 2018 Unit: share; %

Name	Investment by the Company		Investments Directly or Indirectly Controlled by Directors and Managers of the Company		Total Investment	
	Shares	%	Shares	%	Shares	%
Alexander Marine International Co., Limited	10,000	100%	-	-	10,000	100%
Rocs Marine Industry Corporation	674,310	100%	-	-	674,310	100%
Alexander Marine Enterprises Inc.	10,000	100%	-	-	10,000	100%
Alexander Marine USA Inc. (Note 2)	Note 1	100%	-	-	Note 1	100%
Alexander Marine California Inc. (Note 2)	Note 1	100%	-	-	Note 1	100%
Merritt Island Boat Works, Inc.	Note 1	100%	-	-	Note 1	100%
Alexander Marine Australia Pty Ltd.	Note 1	100%	-	-	Note 1	100%
Pacific Coast Yachting Services Inc.	100,000	100%	-	-	100,000	100%
East Coast Yacht Group Inc.	Note 1	100%	-	-	Note 1	100%

Note 1: It is a private company that has not issued shares. The shareholding portion (%) field shows the ratio of capital investment instead.

Note 2: The financial statement of the group's Alexander Marine California Inc. is prepared by foreign holding company Alexander Marine USA Inc., which prepared a consolidated financial statement based on its local regulations, therefore it is disclosed as the foreign holding company Alexander Marine USA Inc.

IV. Capital Overview

4.1 Capital Stock and Shares

4.1.1 Capitalization

As of April 30, 2019; Unit: thousand shares; NT$ thousand

Year and month	Issue price	Authorized Capital		Paid-in Capital		Note		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increased by Assets other than Cash	Others
1978.01	10	3,600	36,000	1,600	16,000	Incorporation	-	-
1983.01	10	3,600	36,000	1,700	17,000	Cash NT$1 million	-	-
1985.12	10	3,600	36,000	3,600	36,000	Cash NT$19 million	-	-
2008.10	10	49,900	499,000	18,600	186,000	Cash NT$150 million	-	Notice Jing-Shou-Zhong-Zi No. 09733330070 dated October 27, 2008.
2008.12	10	49,900	499,000	33,600	336,000	Cash NT$150,000 million	-	Notice Jing-Shou-Zhong-Zi No. 09734194090 dated December 19, 2008.
2009.01	10	49,900	499,000	49,900	499,000	Cash NT$163 million	-	Notice Jing-Shou-Zhong-Zi No. 09831508830 dated January 7, 2009.
2014.12	10	70,000	700,000	54,156	541,561	Retained earnings NT$42,561 thousand	-	Notice Jing-Shou-Shang-Zi No. 09734194090 dated March 17, 2015.
2015.07	10	70,000	700,000	56,156	561,561	Cash NT$20 million	-	Notice Jing-Shou-Shang-Zi No. 10401170970 dated August 17, 2015.
2016.07	10	70,000	700,000	66,489	664,888	Retained earnings NT$103,327 thousand	-	Notice Jing-Shou-Shang-Zi No. 10501160430 dated July 5, 2016.
2016.10	10	70,000	700,000	66,671	666,709	Restricted stock awards of NT$1.82 million	-	Notice Jing-Shou-Shang-Zi No. 10501249280 dated October 19, 2016.
2017.06	10	70,000	700,000	66,683	666,829	Restricted stock awards of NT$120 thousand	-	Notice Jing-Shou-Shang-Zi No. 10601082800 dated June 27, 2017.
2017.07	10	100,000	1,000,000	84,017	840,173	Retained earnings NT$173,344 thousand	-	Notice Jing-Shou-Shang-Zi No. 10601099560 dated July 21, 2017.
2018.01	10	100,000	1,000,000	94,567	945,673	Cash NT$105.5 million before listing.	-	Notice Jing-Shou-Shang-Zi No. 10601171170 dated January 5, 2018.
2018.06	10	100,000	1,000,000	94,877	948,773	Restricted stock awards of NT$3.15 million Cancellation of restricted stock awards of NT$50 thousand		Notice Jing-Shou-Shang-Zi No. 10701068200 dated June 27, 2018.
2018.09	10	100,000	1,000,000	93,062	930,623	Restricted stock awards of NT$1.84 million Capital reduction by cancelling treasury stock of NT$19.92 million Cancellation of restricted stock awards of NT$70 thousand		Notice Jing-Shou-Shang-Zi No. 10701121640 dated September 20, 2018.
2019.01	10	100,000	1,000,000	93,045	930,453	Cancellation of restricted stock awards of NT$170 thansand		Notice Jing-Shou-Shang-Zi No. 10801012740 dated January 29, 2019.
2019.04	10	100,000	1,000,000	90,938	909,383	Capital reduction by cancelling treasury stock of NT$21.07 million		Notice Jing-Shou-Shang-Zi No. 10801044340 dated April 22, 2019

As of April 30, 2019

Type of Shares	Authorized Shares			Note
	Outstanding shares	Unissued Shares	Total	
Common stock	90,938,276	9,061,724	100,000,000	Listed stocks

4.1.2 Composition of Shareholders

As of April 7, 2019 (per the shareholders list); unit: person; share

Composition of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Individuals	Foreign Institution and Foreigners	Total
No. of Person	-	1	13	2,710	19	2,743
Shares	-	63,000	3,188,408	37,963,549	51,830,319	93,045,276
Holding ratio %	-	0.07	3.42	40.81	55.70	100.00

4.1.3 Distribution of Shareholding

As of April 7, 2019

Class of Shareholding	Number of Shareholders	Shareholding (shares)	Percentage (%)
1-999	136	17,725	0.02
1,000-5,000	2,118	3,794,357	4.08
5,001-10,000	243	1,879,974	2.02
10,001-15,000	74	940,979	1.01
15,001-20,000	46	853,633	0.92
20,001-30,000	36	890,298	0.96
30,001-50,000	31	1,240,458	1.33
50,001-100,000	24	1,596,217	1.72
100,001-200,000	10	1,407,136	1.51
200,001-400,000	10	2,404,774	2.58
400,001-600,000	4	1,888,675	2.03
600,001-800,000	-	-	-
800,001-1,000,000	2	1,655,640	1.78
Over 1,000,001	9	74,475,410	80.04
Total	2,743	93,045,276	100.00

4.1.4 List of Major Shareholders

As of April 7, 2019

Name of Principle shareholder	Shareholding (shares)	Percentage (%)
Bridgetop Global Company Limited	17,886,745	19.22
Yi Hui Kuo	16,732,830	17.98
Johnny Chueh	15,348,097	16.50
Oberyn Investments LTD.	7,998,138	8.60
Stormlands Worldwide LTD.	7,998,138	8.60
Chung Hui Cheng	2,228,276	2.39
Ching Chia Chueh	2,164,612	2.33
Nien Yun Chou	1,992,574	2.14
Jui Han Yang	845,478	0.91
Jian Liang Kuo	810,162	0.87

4.1.5 Market Price, Net Worth, Earnings, and Dividends per Common Share

Unit: NTD

Item \ Year			2017	2018	Until March 31, 2019
Market Price per Share	Highest		94.00	82.20	48.50
	Lowest		66.30	29.00	40.80
	Average		78.60	53.19	43.63
Net Worth per Share	Before Distribution		29.32	30.11	26.98
	After Distribution		27.29	(Note 1)	Not applicable
Earnings per Share	Weighted Average Shares (in thousand shares)		84,561	93,237	90,465
	EPS before Adjustment		3.24	3.85	(2.96)
	EPS after Adjustment		3.24	3.85 (Note 1)	Not applicable
Dividends per Share	Cash dividends		2.03	2.00 (Note 1)	Not applicable
	Stock Dividends	Dividends from Retained Earnings	-	-	Not applicable
		Dividends from Capital Surplus	-	-	Not applicable
	Accumulated Undistributed Dividends		-	-	Not applicable
Return on Investment	Price/Earnings Ratio		24.26	13.82	(14.74)
	Price/Dividend Ratio		38.72	26.60	Not applicable
	Cash Dividend Yield (%)		2.58	3.76	Not applicable

Note 1: Subject to the approval of the Annual General Meeting.

4.1.6 Dividend Policy and Implementation

I. Dividend Policy:

If the Company makes a profit in a fiscal year, it shall set aside no less than 1% as employee remuneration, which the Board of Directors will determine whether to issue as stock or cash. Eligible employees need to meet certain criteria. When the Company receives the above profitable amount, the Board of Directors will decide to distribute no more than 5% as directors' remuneration. Employee remuneration and director remuneration proposals shall be reported to the shareholders meeting. However, if the Company has accumulated losses, the compensation amount shall be provided first before provision for employee remuneration and director remuneration in accordance with the percentages under the previous paragraph.

If the Company's yearly closing shows profit, taxes shall be paid in accordance with the law and accumulated losses be compensated. Then 10% shall be provided as legal reserve, unless the amount of legal reserve has reached the paid-in capital of the Company. The rest shall be used to provide or recycle special reserve in accordance with the law. The remaining amount, if any, together with the accumulated undistributed profit, shall be subject to a profit distribution proposal to be established by the board of directors. Such proposal shall be submitted to the shareholders meeting for resolution to distribute shareholder dividend and bonus.

The Company's dividend policy is based on current and future development plans, in consideration of the investment environment, capital needs and competition domestically and abroad. Moreover, the Company will take into account shareholders interest to adopt a balance dividend policy by issuing over 10% of the fiscal year's dividend distribution as cash dividend.

II. Proposed Distribution of Dividends:

The Board of Directors of the Company resolved the 2018 earnings distribution proposal on March 18, 2018 and subject to the shareholers' approval.

Alexander Marine Co., Ltd.
2018 Earnings Distribution Table

Items	Amount (NT$) Subtotal	Total
Unappropriated retained earnings of previous year		$460,079,147
Less: cancellation of treasury stock adjustments		(82,312,138)
Add: change in remeasurement of defined benefit plan		(2,925,904)
Adjusted unappropriated retained earnings		374,841,105
Add: net profit for the year.		358,755,128
Less: 10% legal reserve		(35,875,513)
Add: reversal of special reserve		29,825,220
Earnings available for distribution		727,545,940
Distribution items:		
Shareholders' cash dividends (NT$2 per share)	(181,876,552)	
*90,938,276 shares as allotment basis (the number of outstanding shares 93,045,276 shares less treasury shares of 2,107,000 shares on March 18th, 2019).	0	(181,876,552)
Unappropriated retained earnings		545,669,388

4.1.7 Impact of the Proposed Stock Dividend in Shareholders Meeting on Operating Performances and EPS: None.

4.1.8 Employees' Compensation and Remuneration to Directors:

1. Employees' compensation and remuneration to directors as stated in the Company's Articles of Incorporation: Please refer to 4.1.6 Dividend Policy and Implementation.
2. For this period, when there is a difference between estimated column of employee dividend and forecast basis of director's compensation, basis for calculating shares for the purpose of paying out share dividends and actual payout figure, and the estimated column are different, what is the accounting procedure to handle this:

   The Company estimates and recognizes the employees' compensation and remuneration to directors based on the annual profits. The expected amount is recognized as compensation expenses. If there is any change after the date of issuance of the financial report in the following year, it will be treated as changes in accounting estimates and the effect of this change will be recognized as profit or loss for the following year.
3. Compensation allocation based on the resolution of the board of directors:
   (1) The Board of Directors resolved on March 18, 2019 to distribute cash as employees' and directors' remuneration for the 2018 fiscal year, which amounts to NT$15,126,000 and NT$0 respectively, and the difference with the 2018 fiscal year account was NT$811, which was insignificant. The amount has been accounted as profit or loss of the 2019 fiscal year.
   (2) The amount of remuneration to employees distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total remuneration to employees:
   The Company's Board of Directors resolved to distribute employees' compensation

all by cash.

4. Actual distribution of employees and Directors' compensation in the previous year, and the difference, reasons, and processing situation for the employees and Directors' compensations that were recognized:

   There is no difference between the actual distribution amount and the recognized amount in 2018.

4.1.9 Repurchase of Shares by the Company:

As of April 30, 2019

Period No.	No. 1	No. 2
Purpose of the buyback	To maintain the Company's credit and shareholders' equity	To maintain the Company's credit and shareholders' equity
Buyback period	April 28, 2018 to June 26, 2018	November 19, 2018 to January 15, 2019
Price range for the buyback	NT$39 to NT$86 per share, when the Company share price is lower than the lower limit of the specified price range, we will continue to buy back company shares.	NT$24 to NT$51 per share, when the Company share price is lower than the lower limit of the specified price range, we will continue to buy back company shares.
Type and number of shares bought back	1,992,000 ordinary shares	2,107,000 ordinary shares
Total value of shares bought back	NT$ 125,376,026	NT$ 88,089,039
Shareholdings that have been cancelled and transferred	1,992,000 ordinary shares	2,107,000 ordinary shares
Accumulated shareholdings of the Company	0	0
Ratio of accumulated shareholdings of the Company	0%	0%

4.2 Arrangement of Corporate Bond: None.

4.3 Preferred Stocks: None.

4.4 Issuance of Global Depository Receipts: None.

4.5 Employee Stock Option Certificate: None.

4.6 Issuance of New Employee Restricted Stock Awards:

4.6.1 As of the date of publicatio of this annual report, new employss restricted stock awards that have not fully met the conditions and the impact on shareholders' right:

As of April 30, 2019

Types of restricted stock awards	2016_1st Grand	2016_2nd Grand	2017_1st Grand	2018_1st Grand
Date of Effective Registration	August 1, 2016		May 03, 2018	August 9, 2018
Issue Date	September 21, 2016	June 12, 2017	May 30, 2018	August 28, 2018
Number of restricted stock awards issued	182,000 Shares	12,000 Shares	315,000 Shares	184,000 Shares
Issued Price	Gratis	Gratis	Gratis	Gratis
Number of restricted stock awards issued as a percentage of shares issued	0.20%	0.01%	0.35%	0.20%
Vesting conditions of restricted stock awards	(1) Employees who have been in service for a continuous period of one year after being granted restricted stock awards, and have not violated any laws, labor contract, company rules, "non-competition and confidentiality consent form," and other contracts with the Company, have a 30% share. (2) Employees who have been in service for a continuous period of two year after being granted restricted stock awards, and have not violated any laws, labor contract, company rules, "non-competition and confidentiality consent form," and other contracts with the Company, have a 30% share. (3) Employees who have been in service for a continuous period of three year after being granted restricted stock awards, and have not violated any laws, labor contract, company rules, "non-competition and confidentiality consent form," and other contracts with the Company, have a 40% share.			(1) Employees who have been in service for a continuous period of one year after being granted restricted stock awards, and have not violated the laws, labor contract, company rules, "non-competition and confidentiality consent form," acquire a 50% share. (2) Employees who have been in service for a continuous period of two year after being granted restricted stock awards, and have not violated the laws, labor contract, company rules, "non-competition and confidentiality consent form," acquire a 50% share.

Restricted rights of restricted stock awards	(1) Employees who are allocated new shares before they meet the vested conditions, they should not sell, pledge, transfer, donate to others, set, or dispose of in any way the restricted stock awards, with the exception of inheritance. For employees who meet the vested conditions, the shares shall be distributed from the trust account to their individual depository account, in accordance with the agreement of the trust custody contract. (2) The attendance, proposals, speeches, voting and voting rights of the shareholders' meeting shall be executed in accordance with the trust custody contract. (3) Employees who are allocated restricted stock awards according to this rule, who have not met the vested conditions, except for shareholders' pre-emptive rights for cash capital increase, will obtain rights similar to the regular stocks already issued by the Company (including but not limited to: cash dividends, stock dividends, capital reduction, capital surplus cash (stock) and any interests in various legal allotment matters arising from merger, division, or shares transfer); however, stock dividend and distribution must also be delivered to the trust. Within one month from when the employee meets the vested conditions, stock dividend and distribution shall be distributed to their individual depository account from the trust account. (4) For employees who have achieved the vested conditions during this period between the Company's book closure date for issuance of bonus shares, book closure date for cash dividends, book closure period for shareholders' meeting as specified in Section 3 of Article 165, or other book closure period for statutory suspension of happening facts until the date of the distribution of rights, the procedures and the removal of the restricted time for the vested shares are executed in accordance with the trust custody contract. (5) After the issuance of the restricted stock awards, it should be delivered directly to the trust custody immediately. Employees may not request the trustee to return the restricted stock awards for any reason or manner until the conditions are fulfilled.			
Custody situation of restricted stock awards	(1) After the issuance of the restricted stock awards, the shares must be delivered to the trust custody immediately. Stock dividends and cash dividends that have been allocated before the vested conditions for restricted stock awards are met must also be delivered to the trust custody. (2) During the trust custody period for the restricted stock awards, it is the sole responsibility of the Company to represent the employees for the execution of the trust agreement between the shares trust institution and the Company (including but not limited to) for the negotiation, signing, revision, extension, clearance, termination, and the delivery, use, and disposal instructions for the trust property. Employees shall, in accordance with Article 106 of the Civil Code, promise in writing that the Company may be the party, beneficiary and agent of the trust agreement at the same time.			
Measures to be taken when vesting conditions are not met.	(1) In the three years the employees are allocated restricted stock awards, those who have voluntarily resigned, have been dismissed or repatriated by the Company, have retired, have personally applied for transfer to affiliated companies, have previously been allocated shares, but the employees who voluntarily resigned, dismissed, repatriated by the Company, retired, transferred to affiliated companies, and have not acquired the shares at the effective date, the Company should recover the shares from the employee without compensation. (2) In the three years after being allocated the restricted stock awards, for the employee whom the Company authorizes temporary leave without salary (including but not limited to childcare, injury, military service, and so on), it is deemed that the employee does not meet the vested conditions during this period of time. Employees are entitled to reinstate their interests within the scope of the share placement in the year in which they resumed their duties in accordance with the provisions of Section 3 of this Article. However, after the employee has resumed their duties and the actual allocated number of shares for the year, the Company's chairperson should re-approve the proportion and time limit for achieving the vested conditions with reference to the factors in Section 2 of Article 3. (3) In any year between the first year to the third year after the allocation of the restricted stock awards, the Company should recover the shares, without compensation, that are allocated to the employees in the current year when they do not meet the vested conditions in accordance with Section 3 of this Article. (4) If the need arises from the Company's operation, and the employee is required and approved by the Company to transfer to its affiliated company, for the shares that have not been acquired at the effective date of the transfer to the affiliated company, the Company's chairperson should re-approve the proportion and time limit for achieving the vested conditions with reference to the factors in Section 2 of Article 3. (5) If due to job adjustment, such as a promotion or transfer to other positions, the Company's chairperson should re-approve the proportion and time limit for achieving the vested conditions within the scope of the shares allocated to the employee but not yet acquired, in accordance with the new duties and position, and potential contribution in the future (with reference to the consideration factors in Section 2 of Article 3 in this regulation). (6) Employees are entitled to the stock dividend and distribution during the acquiring period, and the Company agrees to give them to the employees for free. It will not be different to whether or not it has met the vested conditions. (7) For the employee who terminates or cancels the authorization of the Company as the appointed agent in violation of the provisions of Section 7 and 8 of this Article before the vested conditions are fulfilled, the Company may recover all of the vested shares from the employee without compensation.			(1) In the two years after being allocated the restricted stock awards, those who voluntarily resign, have been dismissed or resigned by the Company, retired, personally apply for transfer to an affiliated company, have previously been allocated shares, for the shares that have not been acquired at the effective date when the employee voluntarily resign, dismissed or resigned by the Company, retired, transfer to the affiliated company, the Company shall recover the shares with no compensation from the employee. (2) In the two years after being allocated the restricted stock awards, for the employee whom the Company authorizes temporary leave without salary (including but not limited to childcare, injury, military service, and so on), it is deemed that the employee does not meet the vested conditions during this period of time. Employees are entitled to reinstate their interests within the scope of the share placement in the year in which they resumed their duties in accordance with the provisions of Section 3 of this Article. However, after the employee has resumed their duties and the actual allocated number of shares for the year, the Company's chairperson should re-approve the proportion and time limit for achieving the vested conditions with reference to the factors in Section 2 of Article 3. (3) In any year between the first year to the second year after the allotment of the restricted stock awards, the Company should recover the shares that are allotted to the employees in the current year when they do not meet the vested conditions in accordance with Section 3 of this Article. (4) If the need arises from the Company's operation, and the employee is required and approved by the Company to transfer to its affiliated company, for the shares that have not been acquired at the effective date of the transfer to the affiliated company, the Company's chairperson should re-approve the proportion and time limit for achieving the vested conditions with reference to the factors in Section 2 of Article 3. (5) If due to job adjustment, such as a promotion or transfer to other positions, the Company's chairperson should re-approve the proportion and time limit for achieving the vested conditions within the scope of the shares allocated to the employee but not yet acquired, in accordance with the new duties and position, and potential contribution in the future (with reference to the consideration factors in Section 2 of Article 3 in this regulation). (6) Employees are entitled to the stock dividend and distribution during the acquiring period, and the Company agrees to give them to the employees for free. It will not be different to whether or not it has met the vested conditions. (7) For the employee who terminates or cancels the authorization of the Company as the appointed agent in violation of the provisions of Section 7 and 8 of this Article before the vested conditions are fulfilled, the Company may recover all of the vested shares from the employee without compensation.
Number of restricted stock awards redeemed or bought back	8,000 Shares	0 Shares	24,000 Shares	16,000 Shares
Number of released new restricted shares.	106,000 Shares	4,000 Shares	10,000 Shares	6,000 Shares
Number of unreleased new restricted	68,000 Shares	8,000 Shares	281,000 Shares	162,000 Shares

shares.				
The proportion of the number of unreleased new restricted shares to total issued shares (%).	0.07%	0.01%	0.31%	0.18%
Impacts to shareholders' equity	The proportion of the number of unreleased new restricted shares to total number of issued shares is only 0.57%. There is no significant impact on shareholders' equity.			

4.6.2 List of managers and top ten employees receiving new employee restricted stock awards as of the publication date of this annual report

As of April 30, 2019

	Title	Name	Number of restricted stock awards	Rrestricted stock awards as a percentage to total issued shares.	Released				Unreleased			
					Number of Shares	Issued price	Amount	Released number of shares as a percentage of total issued shares	Number of Shares	Issued price	Amount	Unreleased number of shares as a percentage of total issued shares
Manager	President	Hsiung Wei Tseng	350,000	0.38%	84,000	Gratis	-	0.09%	266,000	Gratis	-	0.29%
	Chief financial officer	Yu Chou Huang										
	Assistant VP	Hsin Wen Huang										
	Manager	Meng Yueh Ku										
Employee	Manager	Ping Han Lin	182,000	0.20%	36,000	Gratis	-	0.04%	146,000	Gratis	-	0.16%
	Manager	Yi Chun Chou										
	Manager	Yi Cheng Lu										
	Manager	Jung Yu Shen										
	Manager	Pai Lin Ho										
	Deputy Manager	Hsuan Sheng Lin										
	Deputy Manager	Kuan Rong Huang										
	Deputy Manager	Yi Ling Chen										
	Section Leader	Cheng De Pan										
	Section Leader	Tien Kuei Yang										

4.7 Status of New Shares Issuance in Connection with Mergers and Acquistions: None.

4.8 Financing Pla and Implementation:

No uncompleted share issurance or completed transaction without expected benefits in the past 3 years.

V. Operational Highlights

5.1 Business Activities:

5.1.1 Scope of Business:

I. The main business activities of the Company:
The Company's main business portfolio is yacht design, production and sales services, and yacht-related spare parts income, and so on.

(1) F401021 Controlled Telecommunications Radio-Frequency Devices Industry
(2) CA02060 Metal Containers Manufacturing
(3) CB01010 Machinery and Equipment Manufacturing
(4) CD01010 Ship and Parts Manufacturing
(5) CN01010 Furniture and Fixtures Manufacturing
(6) E801010 Building Maintenance and Upholstery
(7) I501010 Product Designing
(8) I503010 Landscape and Interior Designing
(9) F114060 Wholesale of Ship Machinery and Parts
(10) F199990 Other Wholesale Trade
(11) F401010 International Trade
(12) ZZ99999 Non-prohibited or non-restricted businesses, in addition to the permitted business

II. Revenue Mix

Unit: NTD thousand

Year / Main products	2017		2018	
	Sales	%	Sales	%
Yachts	3,556,813	98.17	3,781,372	95.50
Others (note)	66,180	1.83	178,115	4.50
Total	3,622,993	100.00	3,959,487	100.00

Note: Including sales of spare parts, used boats, and income from maintenance service.

III. Products (service) currently offered by the Company
(1) Sale of yachts and after-sales service
(2) Design and manufacturing for 45 feet to 120 feet yachts
(3) Yacht decoration, repair, and maintenance
(4) Design, processing, and manufacturing of the related spare parts

IV. New products (service) planned for developments
(1) Highly modular power boats for mass production
(2) Newly designed yacht models
(3) Modification of the existing yacht series
(4) Newly designed small-sized (<50 feet) outboard cruising yachts
(5) Global sales and service channel expansion
(6) Production capacity expansaion

5.1.2 Industry Overview

I. Current status and development of the industry

A. Manufacturing and order placement of global yachting industry

The consumption of the yacht industry is related to the economic strength of a country, the affluence of the people, the geographical environment, consumption concepts and related policy systems. Looking at the global yacht market, North America and Europe are the two most important yacht markets in the world today, which together

account for more than 90% of the world yacht market share. In North America, the United States is the country with the most developed yacht industry in the world, and its yacht market accounts for more than half of the world's yacht sales. It is the world's largest yacht consumer country.

The financial tsunami at the end of 2008 and the European debt crisis has led to complete changes in the structure of the yacht industry in the global economy, especially for high-end consumption. The emerging wealthy customers and market boundaries have undergone qualitative changes. The global yacht sales shrank by more than 40% instantly, and more than one third of the yacht factories have closed down or faced operational crisis. Therefore, some large international factories in the Europe and North America region have closed down or consolidated, and were even acquired by large Chinese enterprises. However, the global yacht industry in 2013 began to recover gradually. The latest data from the internationally renowned professional yacht magazine "ShowBoats International 2018" shows that annual orders for global mega-yachts (80 feet and more) in 2019 rebounded by 19.9% from the 2013 low. This indicates that the overall market has shown trends of continuous climbing. (Refer to the table below)

Projects by length, 13 year comparison

LENGTH	24-27M	28-30M	31-36M	37-45M	46-60M	61-75M	76M+	TOTAL
2019	228	117	172	121	104	40	48	830
2018	182	114	162	123	100	39	53	773
2017	195	103	138	132	96	44	52	760
2016	168	93	163	141	106	34	49	754
2015	174	84	157	125	106	38	50	734
2014	164	82	151	149	113	36	40	735
2013	119	94	142	151	100	47	39	692
2012	178	70	151	150	109	43	27	728
2011	158	78	151	155	132	45	30	749
2010	187	89	144	150	122	41	30	763
2009	286	117	190	193	155	43	24	1,008
2008	253	114	179	175	125	47	23	916
2007	207	109	155	152	108	28	18	777

Source: ShowBoats International 2019

According to the international professional yacht magazine "ShowBoats International", the analysis of orders and production areas shows the World's mega-yacht manufacturing is mainly concentrated in traditional large European yacht manufacturing countries such as Italy, the Netherlands and Turkey. Taiwan's yacht manufacturing ranks first in Asia, with the Kaohsiung yacht factory with outstanding results accounting for more than 80% of the total Taiwanese output.

B. Prospects of customer base for the yachting industry

According to research, the luxurious Super Yacht market seems to be growing yearly, it seems not to be impacted by the financial turmoil. The main reason is that for this group of emerging wealthy customers, they are often the winners regardless of the volatility or stability of the economy. Similar to cars of top brands in the automotive industry where there is still a certain amount of sales even during times of economic turmoil. The orders of this group of customers are not many, but they are often the indicators for the future development of the industry and the forecast of the economy. According to Camper & Nicholsons' 2016 State of Wealth, Luxury and Yachting report, a new generation of Ultra High Net Worth Individuals (UHNW) is increasingly focusing on pursuing rare, tailor-made products, in part because this uniqueness gives and ensures the high social status of these people. Therefore, the market has begun to discover that some high-profile first-time buyers entering the world of superyacht owners, and their living habits as close as possible to the water has also made yacht clubs become popular. This market demand is also reflected in the World-famous Monaco Yacht Show, which exhibited more than 11 large yachts of 65 feet and more in 2016. This number is almost twice as many as in 2015.

According to the 2019 Global Wealth Report released by Knight Frank, there were a global total number of 198,000 wealthy people with net worth of more than 30 million US dollars (about one billion New Taiwan Dollars) in 2018. Due to economic recovery and frequent highs in stock markets of various countries, the global number of wealthy people has increased by 4% as compared with the previous year. It is predicted in the five-year period from 2018 to 2023, the global number of wealthy people will further increase by 22%. The number of wealthy Americans is the highest in the world. It is obvious that the economic strength is strong and it is expected to continue to maintain the potential for high-end consumption. Therefore, the Company's future sales prospect of the client group is still mainly the US market. The table below shows the distribution of the World's richest in major countries and future growth:

Country	2013	2018	2023	Growth	
				2013~2018	2018~2023
U.S.	39,378	47,127	55,539	20%	18%
Germany	11,392	14,047	17,854	23%	27%
United Kingdom	10,149	12,559	15,233	24%	21%
Japan	16,450	18,534	20,570	13%	11%
China	7,905	9,953	13,429	26%	35%
Global Population	**167,669**	**198,342**	**241,053**	**18%**	**22%**

Source: The Wealth Report, 2019 13th Edition; the Company

C. Development status of Taiwan yachting industry

In 1958, the US military advisory group stationed in Taiwan introduced the wooden shell sailboats design layout. Because of the high quality manufacturing and competitive price in Taiwan, the shipbuilding industry began to rise. Later, even yacht orders from various other countries flocked to Taiwan. At that time, orders would pour in as long as the Taiwanese factories had the capacity to produce. It opened up the era of OEM export for Taiwan shipyards, and was given the name "Yacht Kingdom" in the 1980s. After 1988, the total output value curve of Taiwan's yacht industry plummeted all the way. In 1994, it slammed to the lowest point. The total value of exports remained to only 71 million US dollars and more. It fell from the peak to the bottom for 64%. The main reasons were the appreciation of the New Taiwan dollar (from one US dollar to NT40 dollars, which appreciated to NT25 dollars), increased wages, US-implemented luxury tax, and profits to be shared with OEM agents. It was almost unprofitable. The yacht industry had undergone the first shuffle in its history.

Nowadays, the well-known yacht businesses in Taiwan, Ocean Alexander, Horizon Yachts, Monte Fino Yachts, Bluewater Yacht Builders, and President Boat, and so on,

are those that stayed strong amidst the weakened industry back then. They relied upon self-developed brands towards high value-added transition, and beat many manufacturers in Europe and the US, and were once again recognized by global buyers. The output value in 2005 has exceeded two hundred million US dollars for the first time, so "Made-in-Taiwan Yacht" blossomed all over the world. According to customs statistics, Taiwan's 2018 yacht export value was NT$4.9 billion, a 10% increase from the previous year.

D. Domestic industry competitive advantages, restrictions and outlook

Early domestic implementation of sea banning, the lack of relevant yacht regulations and environmental facilities, many legal restrictions on procurement, and complex procurement processes, consequently the domestic market of Taiwan yachts was almost zero. Almost all of the export models caused Taiwan's yacht factories to encounter many difficulties in developing yacht model types for mass production. One of the difficulties was that it was too far from the end consumers. The yacht buyers were mainly concentrated in the United States and Europe. As a result, the yachts produced in Taiwan must bear additional transportation costs and time, thus, reduced its competitiveness with local shipyards. In addition, yachts sales were subject to the overseas agents and lack of good self-distribution channels.

However, the yacht industry's customer base is mainly the wealthiest at the top of the pyramid. The super wealthy are particular about the quality and product personalization. Taiwan's tailor-made customization ability is very high. Neighboring manufacturing countries such as Japan, Korea, and Mainland China are still unmatchable. In addition, coupled with the high cost performance of high quality and low price, this has made Taiwan an internationally renowned yacht production base.

In response to the uncertainty of the international economic situation and the characteristics of Taiwan's yacht industry, the former OEM-based yacht manufacturers have begun to realize the importance of developing their self-owned brands with superior quality and unique life experiences, and to build brand loyalty with consumers. Concurrently, developing customer-oriented and large-scale production models can meet the needs of the consumers, and also take into account the control of production costs and avoid losses in costs of parts and technology dispersion.

E. Types and introduction of the yachting industry

The standard unit of the international standard yacht is calculated in feet (1 foot = 0.305 meters), which is distinguished by size: 40 feet and below are small yachts, 40 to 80 feet are medium yachts, 80 to 120 feet are Super Yachts, 120 feet and above is a Mega Yacht.

<u>By length:</u>

(A) Yachts less than 40 feet in length: Belongs to the entertainment vehicles connecting the land and seas. The structure is simple and the materials are economical. The internal decoration is determined by the manufacturer to enter mass production. The safety and stability of a small-size boat is low, the scope of activities is mainly inland seas, inner bays, lakes and nearshore within 12 nautical miles, used for fishing, diving and water sports. They are often called power yachts or power boats. The middle class mostly owns this type of yacht. It is transported on the trailer and stored in a ship warehouse on land.

(B) Yachts between 40 and 80 feet in length: Products of this range are larger in size and can be designed to accommodate two to three rooms with facilities, adding to the general on-land living function, with high stability and endurance. It is possible to sail for more than one week's time. Most of the yachts in this class were designed and produced by the shipyard in batches, with varying degrees of luxury, and the main customers were in the early stage of the emerging wealthy.

(C) Yachts at more than 80 feet to 120 feet in length: This is already a super yacht. This type of yacht is more commonly made of fiberglass, and carbon fiber composites for the hull material. There are two or more decks with three or more rooms. Internal decoration can be modified according to the customer's personal preferences and fashion tastes. With high-powered diesel propulsion, advanced satellite navigation equipment and an electronic automatic hull balancing system to ensure that the vessel maintains high stability during wind and waves, there are also restrictions to the qualifications for operating the vessel.

(D) A yacht with more than 120 feet in length: This is called Mega Yacht. The mega yacht is the king of the yachts. It is the most eye-catching luxury sea-surface palace. It requires not only professional captains and sailors, but the ship's width is larger than normal, so it needs a dedicated large-size dock.

By power:

(A) Sailing yacht: Uses wind as a source of power.

(B) Motor yacht: Uses diesel or gasoline as a source of power.

By hull:

There are wooden shipbuilding; glass fiber, carbon fiber composite yacht; aluminum yacht and steel yacht. At present, fiberglass yachts account for a large proportion in all types of yachts, and steel and aluminum yachts account for a large proportion in large-scale luxury yachts of more than 160 feet.

By style (function):

(A) Motor Yacht/Cruiser

Large and long-range luxury yacht, with luxurious interior, well-equipped for long-distance sailing, and simple color lines, showing a calm and elegant style.

(B) Expedition yacht:

The large and long-distance luxury yacht is equipped with a number of sophisticated instruments. It looks like a tool ship. It has special functions such as deep sea and ice-breaking. It is mostly used in large luxury yachts of more than 80 feet.

(C) Sailing yacht

Using wind power as the source of power, emphasizing the joy of control, mostly the choice by boat owners who love sports.

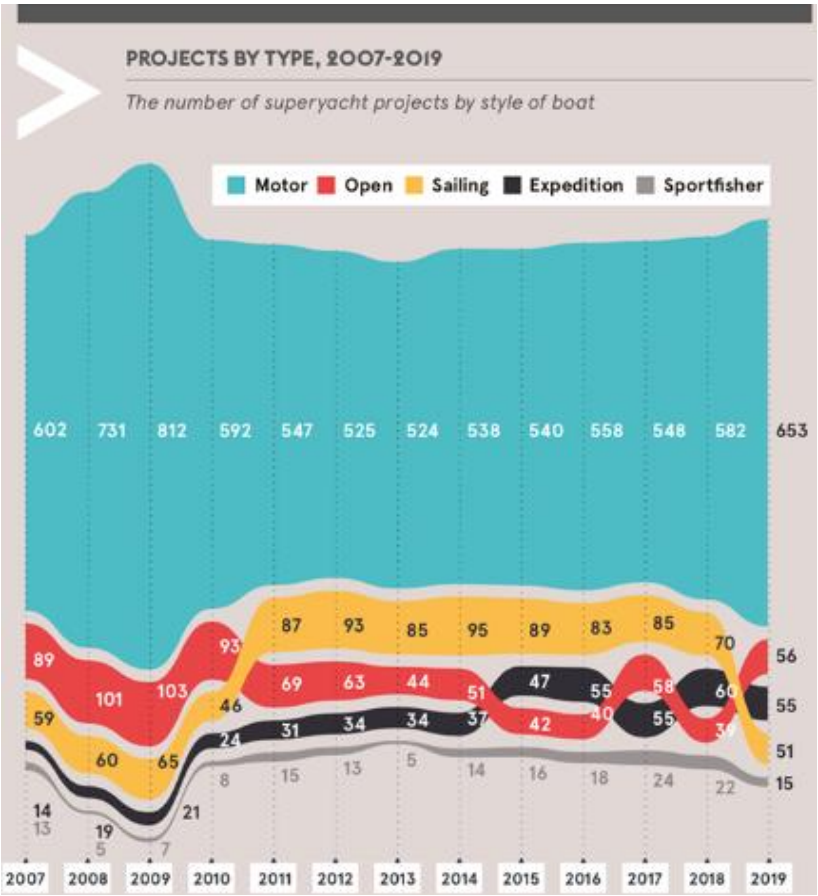
(D) Open Yacht:

Yacht without cabin, above the main deck is an open steering area and open space.

(E) Sport fisher

There is complete fishing equipment. A cockpit on the upper deck or rear drive characterizes this boat, and the deck is very close to the water.

According to the internationally renowned ShowBoats International professional yacht magazine data, among the orders in the 2019 global mega yachts (80 feet and more), about 78.67% are motor yacht/cruiser, due to its practicality and luxuriance that win the other model styles.



Source: ShowBoats International 2018

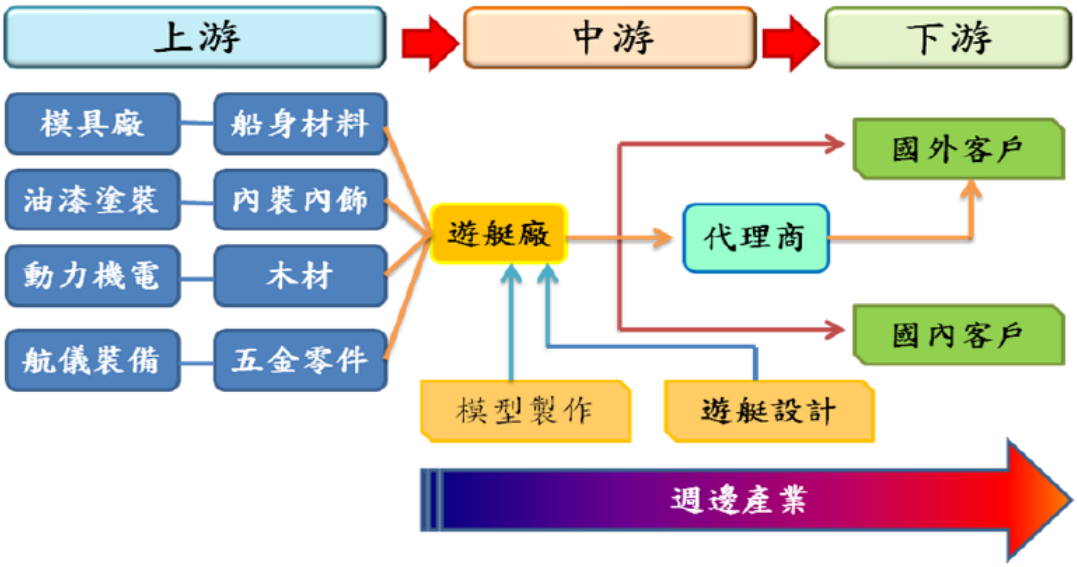
With the preference changes in the market and consumer groups, large-scale yachts are the development trend of yachts in the world today. These yachts are characterized by customization, high quality, luxurious comfort and high-quality image. In order to achieve these characteristics, high level of technology is usually required, and these top-class yachts represent highly added value. For example, a yacht of 250 feet and more can cost more than a million US dollars per meter. The export sales orders of Taiwan's yachts have increased yearly. In recent years, many yacht manufacturers have gradually crossed into the competition of huge yachts of 80 feet and more. The trend towards large size, high value development is quite obvious. In addition, mass-produced yachts have become another development direction. These types of yachts are cheaper but have a large market demand. Hence, the emphasis is on advanced process technology, product cost control, and good marketing distribution channels.

At the same time, the emerging Asia-Pacific market has become the focus of attention, especially with the rapid economic growth in mainland China, thus, creating a group of potential customers. In the face of such a market, as compared with other major yacht producing countries, Taiwan has an excellent geographical position and a good climate, because most of these mass-produced yachts use FRP fiberglass materials. It is unfavorable for production in winter at high latitude regions.

Taiwan's yacht development has been oriented towards large-scale and refined high-end yachts. In the international yacht market, it competes directly with internationally renowned large yacht factories such as Italy, the United States, and the United Kingdom. In the future, efforts on how to improve technical capabilities, production efficiency, brand value, and raise the overall market position of Taiwan's yachts, strengthening brand power, and develop high value mass-produced yachts, increasing market share at both ends of the M-shaped market, will be the future directions of Taiwan's yacht industry.

II. Correlation of upstream, midstream, and downstream of the industry

The yacht industry is characterized as being labor-intensive, technology-intensive, knowledge-intensive, capital-intensive and culturally intensive. It is known as "a huge business opportunity floating on the golden waterway" because of its long industrial chain. The upstream part includes hardware processing, chemical raw materials, woodwork decoration, electrical equipment and other manufacturers; its downstream includes sales, after-sales service, brand, patent and derivative related industries, and so on. The inter-relationship diagram below shows the upper, middle, and lower part of the value chain industry for the yacht industry:



Source: Ministry of Economic Affairs, Department of Technology, 2007

Although Taiwan's yacht industry has long been in the top ten producers in the world, nonetheless, in recent years, part of the supply chain has moved to the mainland's industrial clusters, which has gradually weakened the overall competitiveness of Taiwan's yacht industry. The integration of upstream and downstream has become an urgent task. From the convenience of geographical location, support industries (such as professional ship inspection, ship docking, consignment channels, and maintenance services), upstream manufacturers (such as equipment, raw materials, and outsourcing suppliers), even to the building of the completeness of the government regulations and policy support, is a very important development for the overall yacht industry chain.

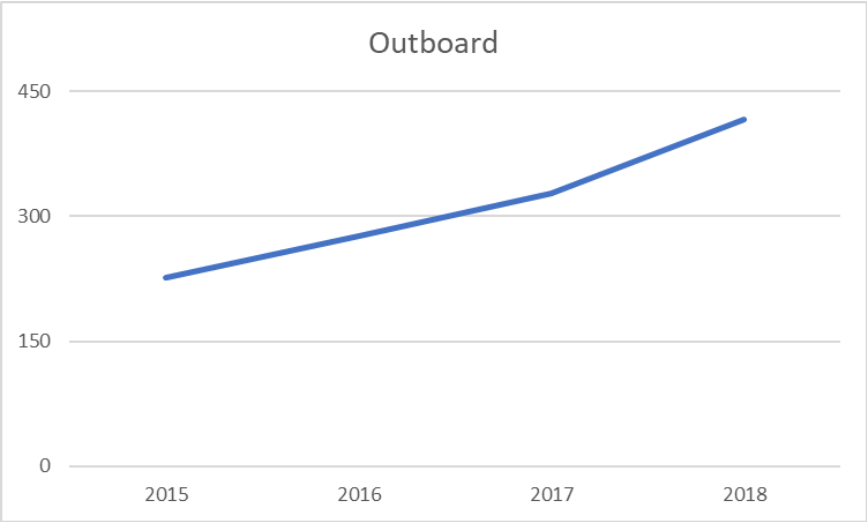
III. Various development trends

Large-scale yachts are the development trend of the world's giant yachts. These types of yachts are characterized by customization, high quality, luxurious comfort, and high-quality image. In order to achieve these characteristics, high technical standards are usually required. These top-class yachts also represent an added high value. According to a survey conducted by ShowBoats International, the 2008 financial tsunami outbreak has dramatically affected the yacht consumer market, but the orders for Super Yachts (80 feet and more) have gradually warmed up after 2009. In 2014 and 2015, it reached the peak of global order delivery of 412 and 392 yachts in the whole year. It shows that in addition to the continuous upward rise in the consumption strength of the wealthy customers, the development trend shows that consumption preference has also oriented towards large-size yachts.

In detail, the current trend development of yacht design is towards multi-functionality, comfort and fashion. Most yacht designers are working to create the perfect exterior and interior decoration design; Some design experts have begun to attempt to improve and innovate in services such as work spaces, entertainment and fitness centers, safety and

health facilities; some yacht designers consider designing private suites on the yacht, providing back-up life-saving passages, adequate rest space and perfect lighting effects; some designers consider designing offices, conference rooms and advanced communication systems on the yacht. They believe that with the help of satellite communications, video conferencing and the internet, yacht owners can host meetings and engage in commercial activities via satellite communications. In addition, design content has to fit the personal needs of the yacht owner. For example, for yacht owners who place importance on health, fitness centers have become more popular; for yacht owners who like music and film, audio facilities and private movie theater are favored.

Besides large luxury yachts, according to the data registered with the US Coast Guard, market transactions for medium-sized outboard cruising yachts 40 feet to 55 feet are active, demand is more than supply. The total number of registered yachts between 2015 to 2018, has increased from 226 to 416, and every year shows growth trend (as the image below); the compound growth rate for three years is over 20%.



Source: US Coast Guard statistics; the Company

IV. Industry Competition

According to the data of the internationally renowned professional yacht magazine ShowBoats International, the "number/total tonnage ranking" of the top three producing countries in 2019 are Italy, the Netherlands and Germany. While Taiwan is technically complex, and the "total length" in orders has gradually matured, in the "quantity/total tonnage ranking" it did not make it to the top five (see the table below). This shows that there is room for improvement in the total capacity of Taiwan's yacht industry. Whether the industry can maintain its advantages in the future as global demands for medium to large size yachts increases, depends on whether Taiwan's yacht manufacturing technology can meet the demand, whether it can integrate industrial resources, or combine the advantages of the local supply chain. These are the directions for more efforts into enhancing product competitiveness.

TOP BUILDER NATIONS BY VOLUME

RANK	COUNTRY	TOTAL GROSS TONNAGE	AVERAGE GROSS TONNAGE	NUMBER OF PROJECTS
1	Italy	135,434	358	379
2	The Netherlands	96,366	1,302	74
3	Germany	86,698	5,419	16
4	Turkey	41,553	630	66
5	Norway	24,939	8,313	3

Source: ShowBoats International 2019

5.1.3 Research and Development

I. Technical level and research development of the business

The Company's primary goal is to provide yacht owners with the dreams and expectations, with customization capability that is highly flexible and efficient, customized design for each yacht owners to fulfill their demands and desire for leisure life at sea, and at the same time, increase the differentiation with other competitors. The following are examples of major technical development items to meet the expectations of yacht owners:

A. Hull design and fluid mechanics
B. Space utilization and furniture design
C. Yacht control system and hull stability system
D. Hull anti-noise and weight reduction design
E. Ship model development and segmentation technology
F. Laser correction technology
G. Vacuum-assisted resin infusion molding (VARIM) technology

The Company provides one-stop services such as design, production, sales and after-sales warranty. The relevant design and technical development are carried out to achieve the yacht owner's dream and needs through the sales staff to fully understand the ship owner's needs in the early stage. We continue to track the results of related technologies and research and development through after-sales service. In turn, the feedback is recommended to the manufacturing line to make the correction. After this virtuous cycle, we will make extended innovation in existing products and grasp the development opportunities of the product, to enable the company to create products and services that meet the needs of the market and potential yacht owners, and to allow yacht product design to become more refined and humane.

The advantages of the Company are as follows:

A. Outstanding experience
   (A) Over 40 years of experience in the manufacture and sale of yachts.
   (B) Rich experience in selling large and small-sized yachts, second-hand yachts, and agent yachts.
   (C) Brand yachts are highly regarded in the United States and maintain good interactions with traditional ship owners.
   (D) Professional technology is systematically passed down internally through apprenticeship system with close relationships.
   (E) Train local sales talents in the United States to break the barriers between East and West, living, culture and language.
   (F) Established self-owned professional maintenance service team in the east and west coast of the United States
B. Professional technology
   (A) Vacuum-assisted resin infusion molding (VARIM)

   The difference and benefits of the Fiber Reinforced Polymer (FRP) close mold laminating process and the traditional open mold laminating are as follows:

   a. The process is covered by a vacuum bag, which can reduce air pollution by about 90%.
   b. The finished product is stronger and lighter in weight than conventional methods.
   c. Reduce working hours and increase mold efficiency.

d. The improvement of the working environment and the protection of employees' health.

(B) Laser alignment of shaft

Use a laser-assisted calibration instrument to ensure alignment of the drive shaft:

a. Avoid hull vibration caused by center point deviation.

b. Provide a credible correction report.

(C) Floating floor and wall

Install shock-proof materials on the floor and walls to provide elastic support between the interior space and the structure, to absorb and isolate the vibration of the vessel during operation and the noise it generates.

(D) Elastically changing mold

In addition to practicality, the mold design will take into account the future expansion. Under the premise of not investing a large amount of money, the existing mold can be changed to produce different ship types or parts, in addition to shortening the product development time, reducing the assets consumption and cost savings.

(E) Excellent interior design

The company has been working with well-known foreign designers for many years. It grasps the fashion trends in the US and Europe, and also cultivates internal design talents. It can quickly implement interior decoration planning that meets market expectations according to market demand.

II. Product developers and their education background

Unit: person; year

Item		2017		2018		April 30, 2019	
		# of employee	%	# of employee	%	# of employee	%
Education	Master (and above)	7	39%	8	30%	9	36%
	University (Associate degree)	11	61%	16	59%	14	56%
	High school (and below)	0	0%	3	11%	2	8%
Total		18	100%	27	100%	25	100%
Seniority (average years)		3.8		3.2		3.1	

III. Development costs invested in the past five years

Each luxury yacht of the Company has a high degree of customized design and different production techniques. Until the date of publication of the publicly-announced guide, the R&D department has not yet been established, but the general manager leads the development team (including the project management department, the engineering department's diagram making staff, the design department, and factory personnel) can respond to invest in developing staffs and funds at any time according to the changes and customization of individual yacht processes. The related expenses are specific and unique and have been listed as the manufacturing costs of each yacht project.

IV. Successful developed technologies or products

The products and technologies developed by the Company in recent years are as follows:

Year	Technology or Product
2012	Launched modified OA85E luxury yacht
2013	Launched modified OA90 luxury yacht
2014	Launched OA100-foot luxury yacht
2015	Launched OA112 Tri-level luxury yacht
2016	Launched newly-design OA70E luxury yacht. Launched OA120-foot luxury yacht.
2017	The newly designed OA90R luxury yacht entered production schedule and was expected to be officially unveiled in 2018.
2018	OA 45-foot outboard cruising yacht. The newly designed OA84R luxury yacht entered the production schedule and is expected to be officially unveiled in 2019.

5.1.4 Long- and Short-term Business Development Plans

I. Short term development:

In view of the market development trend, the company's short-term plan aims to enrich the following foundations:

(1) Manufacturing technology:

With the assistance of new technology, the production side continues to improve the modularization technology and application scope to shorten the production cycle and reduce operating costs, increase production and output value, actively expand capacity and expand product lines, while the US factory MIBW cuts into the medium size outboard cruising yachts. Technical wise, we are aware of the dynamic changes in the market and the continuous evolution of international regulatory standards, demonstrating the stability and leading position of the Company's technology base.

(2) Sales distribution channels and multiple product line:

Continue to strengthen self-owned sales team in US West Coast and Australia, and to expand the sales region, such as Europe market and so on; concurrently, actively develop new types of luxury yacht production, cutting into medium-sized outbound cruising yachts production, along with agent work for small-sized brand yachts. This will provide diverse and high-quality products meeting different customers' needs, enforce the Company and brand's competitiveness, and expand market share.

(3) Talent cultivation:

The Company's yachts are well liked by international yachts buyers. One of the main reasons is that its excellent craftsmanship is well recognized. To continue to maintain such excellence and tradition, the Company has established professional processes to pass on the skills, while continuing to cultivate and supplement talents to stabilize future development.

(4) Customer service:

Continues to strengthen and deepen customer service, expands service team in West Coast and East Coast of US, and establishes good relationships with yacht owners; grasps the latest feedback information from the customers. At the same time, through agents at the frontline making contact with customers and market trend information, it would be beneficial to obtaining latest development trends of the international yacht industry, equipment, technology, and that of other yacht companies. This information is regularly fed back to the Company to formulate appropriate operations strategy.

II. Long term development:

In the future, in response to the international yacht market layout, product development and marketing strategies will be adjusted to the following directions:

(1) Reduce dependence on a single market and spread unpredictable risks.

Under the international trend of continuous fluctuations in the global economy, the Company will continue to deepen the brand advantage of high quality and high technology to consolidate the market share of the original large yachts in the United States, and cut into the marketing of small and medium size yachts to expand the scale and spread the risks. Europe is the second largest yacht market in the world. Because of its proximity to the Mediterranean Sea and the Caribbean coast, regardless for the numerous total numbers of marinas and yacht berths, it is also a world-famous holiday destination. Coupled with the recovery of the economy, the European yacht market has begun to show signs of recovery. The Company has invested in the design and production of new products that meet the needs of the European market. It will also arrange for staff to visit the boat show and study the market pulse. In the future, it will be able to seize the opportunity to enter the market and gradually reduce its dependence on the single market.

(2) Develop high value, mass-produced yacht types; to seize the base customers of the M-shaped market.

In the face of future competition and expansion of potential customers, the Company has launched a newly designed OA90 luxury yacht in 2018. In the future, it will gradually introduce a number of new large luxury yachts, and will also cross into the production of medium-sized outboard cruising yachts. Increase competitiveness and increase market share.

(3) Faced with the issue of new technologies, environment and green energy, we will develop economical and energy-efficient yacht types and upgrade production technologies.

The environment and green energy issue is a key issue for the yacht industry. The Company will use new technologies and technologies to achieve its goals, such as developing environmentally friendly yachts (solar, hybrid, and so on), adopting environmental friendly and energy-saving materials and equipment, and improving production technology to reduce the consumption and wastes of materials.

(4) Expand yacht culture and promote yacht popularization.

From the perspective of the yacht culture development model and industrial evolution model in Europe and America, the popular consumption of yachts is an inevitable trend, and it is also the best way for the yacht industry to develop towards healthy and long-term development. One of the purposes of the popularization of yachts is to satisfy the leisure consumption needs of the public. To attract the public to consume yacht leisure products, to this end, it is necessary to enrich the content and form of the product services, such as hosting yacht owners' gatherings. Designing a variety of water sports programs and events to meet the growing and diversified needs of the public will enable the Company to deepen its presence in the market and enhance its brand image.

(5) Integration of industrial settlements.

With the rise of emerging Asian countries, the potential consumer groups of ASEAN countries will be the battleground for the future battlers. The Company is committed to integrating upstream supply chains, such as hardware factories, cooperative engineering plants, shipyards, logistics and other manufacturers. We will also invest in industry-university cooperation, train relevant talents, and prepare to play the "Asian Cup" of the yacht industry in advance.

5.2 Market and Sales Overview

5.2.1 Market analysis

I. Sales Mix by Region

Unit: NTD thousand; %

Sales region \ Year		2017 Amount	2017 %	2018 Amount	2018 %
Domestic sales		-	-	-	-
Exports	America	3,622,993	100.00	3,794,858	95.84
	Australia	-	-	164,629	4.16
Total		3,622,993	100.00	3,959,487	100.00

II. Market share

According to the survey data of industrial production and sales of the Statistics Department of the Ministry of Economic Affairs of Taiwan, the total number of direct sales of yachts in the year of 2018 was 69, and the export value was NT$5.818911 billion. The Company exported 10 yachts in 2018, with a sales value of NT$1.477245 billion, accounting for 14.49% and 25.39% of the market. Looking at the US market with the largest demand for yachts, according to US Coast Guard statistics, there are 37 sales registration data in the United States in 2018 (the size ranges from 85 feet to 112 feet). Although the Company is affected by the crowding out effect of new and old products in the initial period, the number of registrations has decreased, but has remained number one in the market for two consecutive years.

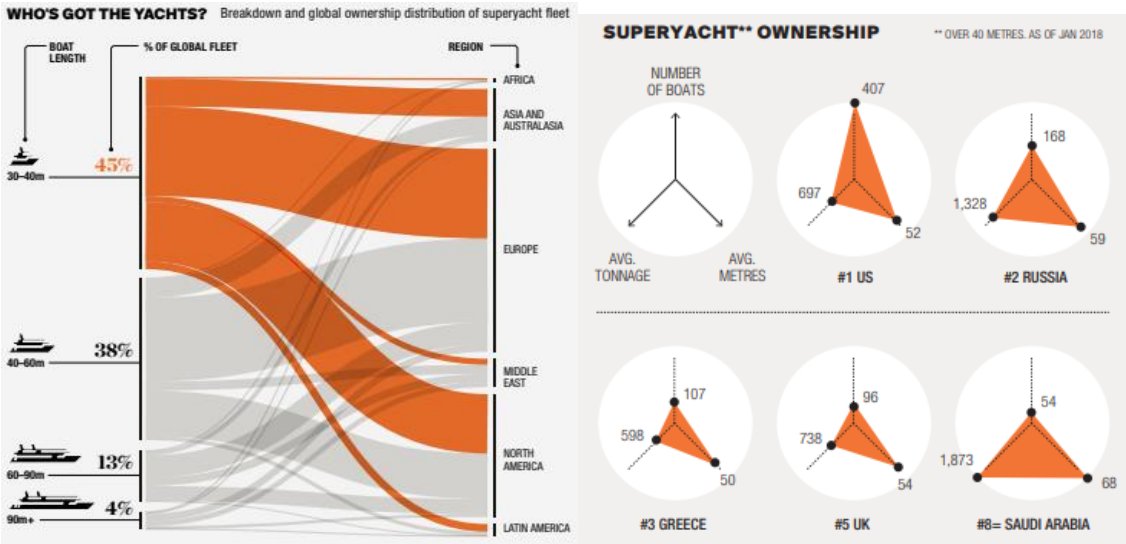
Company name	Number of registrations in 2016	Company name	Number of registrations in 2017	Company name	Number of registrations in 2018
Viking Yacht	8	**Alexander Marine**	**9**	**Alexander Marine**	**6**
Alexander Marine	**6**	Viking Yacht	5	Azimut	5
Azimut	3	Ferretti Group	4	Westport Shipyard	4
Horizon	3	Sunseeker	4	Horizon	3
Princess Yachts	3	Westport Shipyard	4	Sunseeker	3
Subtotal	23	Subtotal	26	Subtotal	21
Others	8	Others	12	Others	19
Total	**31**	**Total**	**38**	**Total**	**40**

Source: US Coast Guard statistics; the Company

III. Market demand and supply and market growth

A recent survey of the 2019 Global Order Book shows that Azimut Benetti is still the market leader in terms of total length, with a total project length of approximately 11,568 feet. Ferretti Group ranked second, and Sanlorenzo ranked third, reports showing strong growth. In terms of gross tonnage, Italy, the traditional shipbuilding power, is still the first, followed by the Netherlands and Germany. According to the order data, the 2019 Global Order Book survey shows that the total length of the top 20 yacht manufacturers in the world has increased by 15.96% as compared with last year.

According to statistics from production models (by size) and yacht owners, the production capacity of 30 to 40 meters (about 100 to 130 feet) can be the mainstream of market supply and demand, and the United States is still the main market of the global yacht industry.



Source: The Wealth Report, Knight Frank

IV. Competitive niche:

(1) The Company has a steady collaborative relationship with Marine Max, the largest listed yachting agent in the United States, with more than 70 sales offices in the US and Europe. The Company also established a subsidiary AMI in 2014 to establish a complete organizational structure of global marketing, customer service and business.

(2) The Company started out as OEM which is different from the others in the industry. Since its establishment, the Company has been focusing on its self-owned brand "Ocean Alexander," and has cultivated this brand overseas for many years, accumulating a high level of brand identity and recognition.

(3) Due to the Company's own brand, each ship exhibits the Company's deep craftsmanship, from the design, mold opening, manufacturing, sales, maintenance and warranty services, providing consistent services by a complete and professional team.

(4) The Company has deep industrial expertise and technical capabilities, continues to research and develop energy-saving new yacht models, or adopts production processes to reduce material consumption and low pollution. In addition to valuing environmental responsibility, it also has a high degree of production flexibility to meet the owners' demand.

(5) Through long-term deep cultivation and focus on the yacht market, understanding the pulse and concerns of the industry or surrounding stakeholders, including long-term cooperation with upstream and downstream of the industry chain, the progress of the yacht industry settlement, sustainable development of community care and environmental protection, the Company can always formulate relevant countermeasures in response to laws and environmental changes.

V. Advantages and disadvantages of the development, and responsive strategies:

In recent years, the yacht industry has become a highlight of the global fashion industry. High-priced, customized, luxurious and comfortable large yachts (80 feet and more) are the development trend of the world yacht industry. And many manufacturers in Taiwan have demonstrated high-tech standards, and export orders have grown yearly. According to the 2018 Global Order Book survey of large-scale yacht orders, Taiwan's total length of hulls is 5,919 feet, ranking the largest in Asia and the fourth largest yacht manufacturer in the world, attracting the attention of the world's top yacht buyers.

(1) Advantages:

A. The Company has been deeply involved in the US market for many years, and has a world-renowned self-owned brand (Ocean Alexander), which has a stable and highly recognized consumer group in the United States.

B. Long-term operation of the US market, close to the consumer market, in the grasps of the latest market and fashion trends, in line with product changes and design to meet consumer demand as quickly as possible.

C. It has service and agent sales bases in the East and West coast of the United States, a sales base in Australia, a complete and sound global service and sales organization structure, and the establishment of subsidiaries as global orders and sales centers, which is also conducive to the newly emerging Asia-Pacific regional layout.
The company has long-standing independent manufacturing technology and research and development capabilities, and is located in the new Bay Area in Asia, which is strongly promoted by the Kaohsiung government policy.

D. The Company has laid out the luxury yacht market for many years. The main products are high-priced, customized, luxurious and comfortable large-scale yachts (80 feet and more), which are well liked by the wealthy consumer groups. At the same time, the large-scale yachts have accumulated production advantages and crossed into medium-sized outboard cruising yachts, attracting new customer groups, which are younger, more individual-oriented individuals who like water sports.

E. Adopting modular and semi-customized planning production schedules, shortening the lengthy process of manufacturing the entire custom-made order generally used in the industry, inventory turnover efficiency is better than that of peers. Increasing customer satisfaction.

F. The Company has a steady collaborative relationship with Marine Max, the largest listed yachting agent in the United States, with more than 70 sales offices in the US and Europe. Equipped with the Company's own sales team and maintenance logistics department to provide the most professional services before and after the sale.

G. The Company has cooperated with internationally renowned yacht designers for many years. At the same time, it can grasp the popular trends of Europe and America simultaneously, and constantly launch amazing new products placing the brand at the forefront of the fashion trend; it is more beneficial to shorten the production process communication and maintain product consistency.

(2) Disadvantages and responsive strategies

A. Risk of order growth due to the differences in the economic recovery among each region or country

Responsive strategies:

According to the order data of ShowBoats International, the demand for the global yacht market has not really disappeared, but the trend of M-shaped has emerged. The Company has been cultivating in the United States for a long time, and its economic recovery is better than that of Europe and Asia. The fiscal and taxation policies have taken the lead in entering the rising interest rate cycle. The stock market is blooming, and the future consumption level is bound to rise; the Company group has service and agent sales bases in the East and West coast of the United States, and consumer brand recognition is high. The Company will continue to expand its yacht production capacity and product line in the United States. The development of yacht products that meet the needs of the M-shaped market, as well as product design close to the market, coupled with a modular low-cost production model, will further enhance the company's market share.

B. Great fluctuation in monthly and quarterly revenue due to longer production cycle for super yachts

Responsive strategies:

The Company makes plans for the production schedules. It takes about one year to one and a half years from the beginning of production to test completion, depending on the size of the yacht. After that, following the shipping schedule of export bulk carrier, it will take about 30 to 45 days to ship to the West Coast of the United States. Shipment to the US East Coast varies from 45 to 60 days; after arriving in the United States, it will once again work with the equipment supplier for the trial test in the sea and final arrangement, maintenance and cleaning work for about 1 month. Therefore, the product turnover time is long and adopts the full completion method to recognize sales revenue, resulting in fluctuations in revenue performance. In order to improve customer satisfaction, the Company has years of experience in understanding the needs of the pyramid customers and their timing for change of boats. Production plan is drawn upon by analyzng historical sales experience, future market needs, and orders at hand. Standardized parts such as shells and decks, interior compartments, equipments and functions are made in advance according to customer requirements. This type of semi-customized planned production can effectively shorten the time from when the customer made the order to final acceptance.

At the same time, in order to provide small and medium size market demand and strengthen the integrity of the product portfolio, the Company has an formed alliance with industry peers to sell small-size yachts and cut into medium-sized outboard cruising yachts. In addition to the steady profitability of the revenue, the Company also cultivates deep customer relationships through the sales and after-sales service of small and medium-sized yachts, which may become potential customers of large yachts of our self-owned brand.

C. Highly concentation on the US market

Responsive strategies:

The demand for large yachts is mainly distributed in Europe and North America. According to the global economic forecast by major institutions, at present, only the economic data of the United States has improved and entered the rising interest rate cycle. The pace of economic recovery in Europe is still slow; first-tier European brands yacht factories also began to enter the US market. It is expected that the United States will remain the main consumer yacht market in the next few years. The Company has been working for many years and has cooperated with large agents. It has an advantage over its European peers in preempting the US market share. At the same time, the Company observes that the yacht culture in Australia is similar to that in the United States. The existing product lines should be able to meet the needs of local consumers. A sales base has been established in Australia to expand the source of customers in different regions and reduce dependence on a single market.

In view of the different cultures, living habits and design tastes of Europe and the United States, and that new products will take many years to complete the process from design, mold opening, discussion and communication to production, the Company has already developed the production of new yachts that meet European aesthetics and usage habits. In the future when the situation rebounds for the European economy, we can grab the first opportunity to enter the market.

D. The largest customer is the dealer.

Responsive strategies:

Marine Max is the largest yacht sales distribution channel company in the United States. It is listed on the New York Stock Exchange. It sells nearly 20 yacht brands and has about 70 bases in the US. The Company cooperates with industry agents and expands market demand in order to provide value-added after-sales service to the top customer group of the pyramid through professional agent

services to enhance the market share of the products and create a stable source of profit. Therefore, unlike general regional agents, the Company and Marine Max have signed a yacht sales agency contract for the eastern region of the United States to protect the agency relationship, providing large-size yachts to complement the integrity of the agent products. Company wise, we can also have a more accurate prediction of the market direction through the agents and grasp the latest pulse of customers to achieve a win-win situation.

5.2.2 Application and production processes of the main products

I. Important use of major products

Most consumers' first thought of the word "luxury" when "yacht" was mentioned, a high-end consumer good for water recreation. In fact, yachts are commonly used for private consumption internationally. In developed countries such as North America, there is an average of one yacht for every 15 people. However, water sports such as yachts and sailboats are not leisure activities that only the wealthy can afford. It is a type of positive and fashionable lifestyle, which is not only suitable for billionaires, but also suitable for the urban middle class. So, the yacht is not simply a symbol of wealth for high society, but a part of the marine life culture, and even more so it is a way of life. The yachts are categorized as below according to the yacht function.

(1) Business yachts, is for one to drive out and anchor at a suitable place for leisure activities such as motorbikes, sailing boats, and other water sports, also for swimming in the sea or fishing, reading, sunbathing, and so on. Business clients can enjoy such kind of nice environment to negotiate business, which is a rare and good place.

(2) Speedboats, with fast speed as the key selling point, are popular among young players and beginners because of the low price.

(3) Sport yachts, fast and usually rich in individual design, are suitable for fishing, diving and other water activities, and also have the functions of leisure and relaxation.

(4) Fishing boats, the users are basically fishing enthusiasts, and there is complete fishing equipment on board. A cockpit on the upper deck or rear drive characterizes this boat, and the deck is very close to the water.

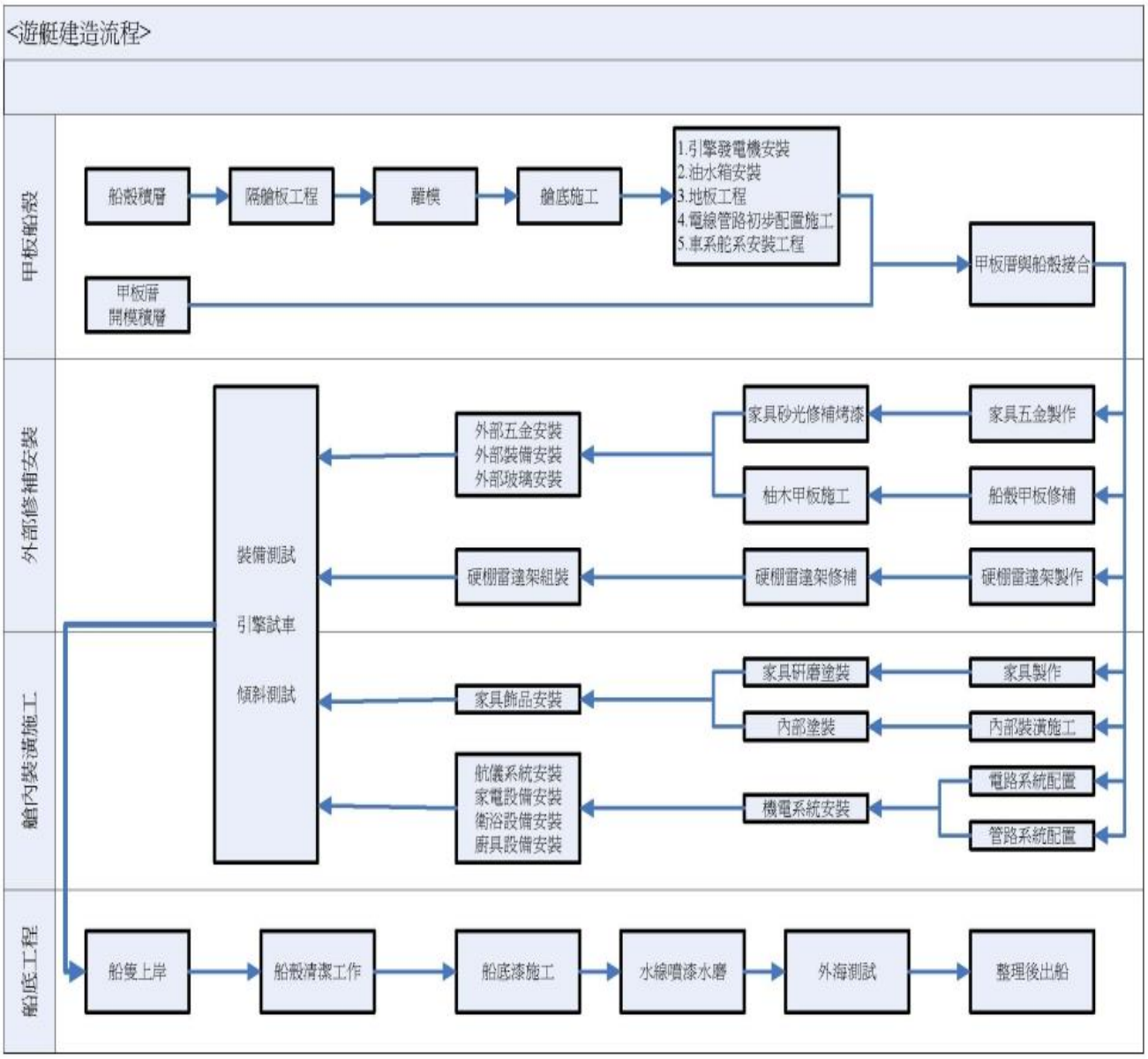
(5) Leisure yachts, mostly purchased by families, are used for family vacations. In general, yachts ranging from 30 feet to 60 feet as primary model, design takes into account the convenience for use by family, and decoration places a focus on family atmosphere as the selling point. The yachts on the mainstream market are also dominated by this category.

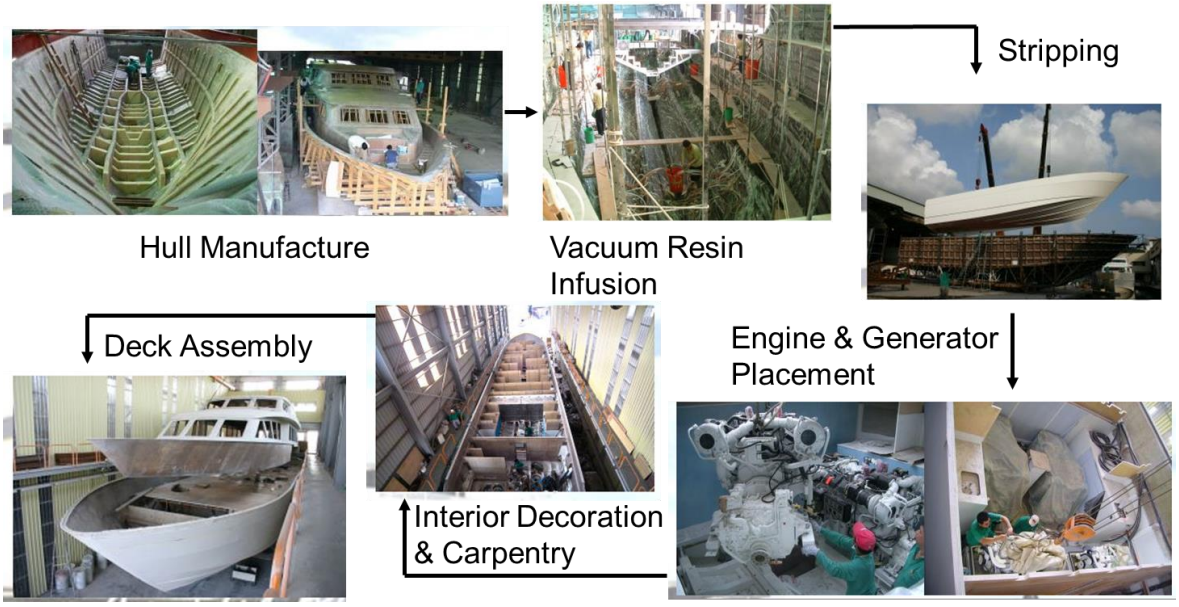
(6) Luxury boat, the Company's products are mainly based on this type. The length of the hull is at least 80 feet and more. The yacht is equipped with the most modern communication and technology systems. The cabin is equipped with high-grade materials such as teak, leather, gold-plated hardware, stainless steel handrails, high-grade carpets, high-end furniture, modern electrical equipment, antiques, calligraphy and painting, special lighting design and other facilities. It sets off a luxurious atmosphere from the inside out.

II. Production process

The Company has been cultivating in the US market for a long time and understands the needs of the pyramid customers and their timing for change of boats. The production plan is drawn upon by analyzing historical sales experience, future market needs, and orders at hand. Standardized parts such as shells and decks, interior compartments, equipment and functions are made in advance according to customer requirements. This type of semi-customized planned production can effectively shorten the time from when the customer made the order to final acceptance, improving customer satisfaction.

The yacht manufacturing process includes hull release, external repair installation, equipment installation, deck bridge fixation, cabin interior construction, testing and cleaning protection. The production process is as follows:





5.2.3 Supply of major raw materials

Over the years, the suppliers of the main raw materials of the Company's products have come from large domestic and foreign manufacturers with good quality reputation and

maintained long-term stable cooperative relationship, so the Company is in no shortage of obtaining the raw materials for production. The main supplier categories and availability are listed below:

Major raw materials	Suppliers	Supply situation
Engine	MTU, CAT, MAN	Good, stable
Generator	Kohler, Onan	Good, stable
Bow thruster	Sidepower	Good, stable
Resin	Aroway Technology Corp., Eternal Materials Co. Ltd., Swancor	Good, stable
Electric door, hardware	Aritex Products Co., Ltd., Ocean Group, Song Wei Enterprise Co., Ltd., Jin Guang Co., Ltd.	Good, stable
Soil / primer / topcoat	Alton Marine Company, God Power International Ltd.	Good, stable
Glass fiber blanket	Chung Ye Machinery, Wah Lee Industrial Corp.	Good, stable

5.2.4 Major customer with over 10% net sales and suppliers with over 10% total purchases of the last two fiscal years

I. Names of supplierss accounting for more than 10% of the total purchase in any of the previous two years:

There was no purchase in 2017 and 2018 that accounted for 10% of more of the net purchase from any single vendor.

II. Names of customers accouning for more than 10% of total sales in any of the previous two years:

Unit: NTD thousand

	2017				2018			
Item	Name	Amount	Percentage of the net sales of the year (%)	Relationship with the issuer	Name	Amount	Percentage of the net sales of the year (%)	Relationship with the issuer
1	Marine Max Inc.	2,073,019	57.22	None	Marine Max Inc.	1,760,253	44.46	None
2	-	-	-	None	Goldfinger Yachts	422,450	10.67	None
	Others	1,549,974	42.78	None	Others	1,776,784	44.87	None
	Sales - net	3,622,993	100.00		Sales - net	3,959,487	100.00	

Description of changes:

For corporate customers, due to the characteristics of sales by the yacht industry through agency structure, the agent MarineMax ranked first for the second consecutive year.

For individual customers, the Company's products are top-grade and refined high-priced products. The annual sales volume is small but the unit sales amount is extremely high. Therefore, it is easy to show that the sales of goods concentrate on a single customer. It is a normal industrial characteristic, and the changes in the two years are considered reasonable.

5.2.5 Production volume and value in the last two years

Unit: boat ; NTD

Year / Output / Main Products	2017			2018		
	Capacity	Volume	Value	Capacity	Volume	Value
Yacht	28	22	2,269,886	24	16	1,761,240
Others (note)	-	-	33,910	-	-	21,256
Total	28	22	2,303,796	24	16	1,782,496

Note: Refer to the spare parts that are purchased, processed, and sold based on the customer's request. So it is not listed in capacity and output.

Description of changes:

Decrease of production capacity and output in 2018 was resulted from the re-planning of the factory capacity allocation for several new models deveopment and product portfolio adjustment.

5.2.6 Sales volume and value in the last two years

Unit: boat ; NTD

Year / Sales Volume/Value / Main Products	2017				2018			
	Domestic sales		Exports		Domestic sales		Exports	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Large-size yachts (note 1)	-	-	21	3,318,752	-	-	14	2,847,393
Small-size yachts (note 1)	-	-	12	136,202	-	-	28	408,074
Others (note 2)	-	-	-	168,039	-	-	-	704,020
Total	-	-	33	3,622,993	-	-	42	3,959,487

Note 1: Large-size refers to yachts of 70 feet and more; small-size refers to other brands' yachts that we act as brand dealer in United States.

Note 2: Includes sales of spare parts, used boats commissions, etc.

Description of changes:

In view of the crowding out effect of the new product development of the Company on the existing products and the adjustment of the product portfolio for factory production, the sales volume of the new large-size ships decreased as compared with last year; however, the benefits of the agent brand increased, the second-hand yacht transactions were active, and service business increased. As a result, these have prompted small-size yacht orders and other income growth; these changes are considered to be reasonable.

5.3 Employees

Year		2017	2018	2019/04/30
Number of Employees	Management	119	108	115
	R&D	18	27	25
	Sales & Marketing	29	34	24
	Direct Labor	508	473	489
	Total	674	642	653
Average Age		38.7	41.2	40.9
Average Years of Service		3.5	3.9	3.9
Education Background	Ph. D.	-	-	-
	Master	19	28	27
	College	207	213	195
	Senior High School	349	310	334
	Junior High School and below	99	91	97

5.4 Environmental Protection Expenditures

In the most recent year and until the date of the publication of the publicly-announced guide, the total amount of losses (including compensation) and dispositions suffered by the Company due to environmental pollution, and explanation of the future response measures (including improvement measures) and possible expenditures (including failure to take countermeasures, the estimated amount of disposition and compensation; if it is not reasonable to estimate, it should state the fact that it cannot be reasonably estimated): None

The Company's main products are large-size luxury yachts. The production process does not produce a large amount of pollutants. To strengthen the Company's corporate governance and fulfill its social responsibilities, the Company actively promotes energy saving and carbon

reduction measures. In the future, we will continue to pay attention to the impact of climate change on operational activities and formulate and promote the Company's energy conservation and carbon reduction strategy to reduce the impact of the Company's operational activities. The energy conservation and carbon reduction measures and benefits that the Company is currently implementing are listed below:

Name of measures	Energy saving effect description
Solar rooftop power generation	The energy-saving benefit is about 533,400 watt-hour/year.
Replacing for LED energy-saving bulbs	The energy-saving benefit is about 14,842 watt-hour/year.
Fluorescent lamp performance improvement	The power saving benefit is about 28,800 KW/year.
Rainwater pool application	The pool has a volume of approximately 2,160 cubic meters and has been used since 2006 to collect rainwater for circular reuse purposes such as boat washing, leak detection and cleaning.
Waste solvent recovery	In 2015, a new type of waste solvent recovery equipment was purchased, and the waste solvent generated daily was recovered by the equipment. It is estimated that about 40 liters of waste solvent can be recycled and reused for every 75 liters used, and used for cleaning purposes.
Air compressor performance improvement	Power saving benefit is about 19,464KW/year

In terms of waste, the Company has prepared a waste disposal plan permit in accordance with the relevant laws and regulations of the Environmental Protection Agency of the Executive Yuan, and disposed of the waste according to the proposed plan. The plan has been reviewed and the review result shows that it will not cause any major pollution to the environment.

The Company uses organic solvents for its production process, and has established an "organic solvent operation procedure" in accordance with the regulations, and has obtained a "Stationary pollution source operating permit" in compliance with the Air Pollution Control Act. Operators and operations supervisors obtain an operating permit by passing the "Labor Safety and Health Education and Training" organized by the Labor Affairs Department.

5.5 Labor Relations

5.5.1. List any emploee welfare plans, continuting education, training retirement systems, and the status of their implementation, and the status of laber-management agreements and measures for preserving employees' rights and interests.

(1) Employee welfare measures

The employees of the Company are all included in the labor insurance and national health insurance according to law. For business trips, we also provide overseas travel insurance. There is also a Staff Welfare Committee to implement various welfare measures, such as birthday gifts, annual festival products, annual travel and handling of employee health checks, and so on, and to adjust employees' physical and mental health and strengthen employees' team spirit and promote friendship between colleagues; in addition, it provides official work mobile phone usage assistance, transportation vehicle subsidy for managers, education subsidy for preschool children, and wedding and funeral welfare subsidies. With a view to encourage colleagues to establish families and a career, and to reduce the burden of colleagues to provide education, depending on the operating conditions each year, we issue annual bonuses, employee compensation and performance bonuses to employees.

(2) Advanced study, training and implementation situation

The Company develops training plans based on development strategies,

continuously improves and cultivates professional talents, ensures product quality and refines technical capabilities, and maintains and enhances the Company's competitiveness in the international market. At the same time, there is a dedicated person responsible for the employee's pre-employment training to cultivate the professional skills of the staff. We give pre-employment training to new employees, and help newcomers get familiar with the work environment as soon as possible. We adhere to the principle of "putting the right persons in the right places," and ensure employees' work scope match their expertise and interests. Through the institutionalized job title system, grade promotion and performance appraisal, employees can gradually realize career planning with the growth of experience and skills.

(3) Retirement system and its implementation

The employee pension scheme established by the Company under the Labor Standards Act is a defined benefit plan. The employee's pension is paid based on the cardinal number of the length of service (seniority) and the authorized one-month average salary at the time of retirement. For seniority within 15 years of service (inclusive) and completed one year of service, they will be given two cardinal numbers. For seniority of more than 15 years of service, they will be given one cardinal number for each completed year, with an accumulation of 45 cardinal numbers as the limit. The Company provides a pension fund of 2% of the total salary on a monthly basis in accordance with the Labor Standards Law, and stores it in a special account of the Bank of Taiwan in the name of the Labor Retirement Reserve Supervision Committee. In addition, the Company estimates the balance of the above-mentioned labor retirement reserve account at the end of each year. If the balance is insufficient to pay the laborer who meets retirement condition within the next year, it shall pay the one-time difference before the end of March in the following year, in accordance with the previously mentioned calculation of retirement amount.

The Company applies the "Labor Pension Act", and ensures to provide retirement schemes. In accordance with the Labor Pensions Act, the Company shall not pay a pension of less than 6% of the employee's monthly salary to the individual account at the Bureau of Labor Insurance. If the workers have voluntary contributions, these voluntary contributions shall also be deposited into the account.

(4) Agreement between labor and management and various employee rights maintenance measures

The Company's various regulations are in accordance with the Labor Standards Act. In addition to regular labor-management communications meetings, employees can submit comments or responses to the human resources department or their department heads or any manager at any time. In the "Work Rules", a special chapter on labor-management communication is also specified, which is used as the basis for the implementation of labor-management communication. At the same time, it also established a trade union organization as an important bridge of communication between the Company and its employees, as well as a system for setting up employee complaint lines, complaint mailboxes and multiple communication channels such as proposal system and personnel interviews. Therefore, the labor relations have been harmonious for many years. In the past two years and as of the date of publication of the publicly-announced guide, there was no major labor dispute that requires the need for coordination. The Company also did not receive penalties for any major labor incidents by the competent authorities.

5.5.2. Disclosure of losses suffered due to labor disputes, and the current and future estimated amounts and response measures for the most recent year and until the publication of the annual report. If it cannot be reasonably estimated, the facts that cannot be reasonably estimated should be stated: None.

5.6 Major Contracts

Major Agreements	Party	Term	Main Content	Limitation Articles
Lease contract	Rocs Marine Industry Corporation	2018.02.01~ 2019.01.31	Rented No. 18, Tongli Rd., Xiaogang Dist., Kaohsiung City, with a land size of 7,445 square meters and the buildings within. Monthly rent of NT$583,000	None
Lease contract	Vectorworks Merritt Island, LLC	2015.01.01~ 2019.12.31	MIBW rented three factories for a total of 141,160 squares, with an annual rent of US$776,000.	None
Sales contract	Marine Max Inc.	Starting from July 1, 2014, for 3 years	Yacht agent sales contract, the contract will extend automatically after the expiration date, if no objections arise from the two parties.	Restricted sales area
Purchase contracts	S2 YACHTS,INC（Tiara）	2016.07.31~ 2019.07.31	Yacht purchase contract, the contract will extend automatically for one year after the expiration date if no objections arise from the two parties.	Restricted sales area
Purchase contracts	S2 YACHTS,INC（Pursuit）	2017.07.27~ 2018.07.28	Yacht purchase contract, the contract will extend automatically for one year after the expiration date if no objections arise from the two parties.	Restricted sales area
Purchase contracts	Regal Marine Industries Incorporated	2016.11.04~ 2018.11.04	Yacht purchase contract	Restricted sales area
Lease contract	Far East Steel Enterprise Corporation	2018.05.01~ 2028.04.30	Rented No. 11, Guangyang St., Xiaogang Dist., Kaohsiung City, with a land size of 25,813 square meters and the buildings within. Monthly rent of NT$1,120,000.	None
Lease contract	Jieju Metal Co., Ltd.	2019.04.01~ 2024.04.31	Rented No. 17, Daye N. Rd., Xiaogang Dist., Kaohsiung City, with a monthly rent of NT$450,000.	None
Loans contract	Bank group such as Chang Hwa Bank	2018.10.25~ 2023.10.25	Repayment of existing bank debt, purchase of equity, newly-built or expanded plant, purchase of machinery and equipment, and enrichment of working capital	Pledge of lands and factory set-ups

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1. Summary balance sheet and comprehensive income statement

I. International Financial Reporting Standards

(1) Condensed Consolidated Balance Sheet

Unit: NTD thousand

Item \ Year		Financial information for the last five year					Financial information as of March 31, 2019 (Note 1)
		2014	2015 (Note 1, 3)	2016 (Note 1)	2017 (Note 1)	2018 (Note 1)	
Current assets			1,960,511	2,869,104	3,536,480	4,486,280	4,610,018
Property, plant, and equipment			758,197	732,382	706,833	1,112,213	1,146,849
Intangible assets			5,016	4,804	8,785	60,052	59,131
Other assets			150,579	234,496	242,476	233,506	620,957
Total assets			2,874,303	3,840,786	4,494,574	5,892,051	6,436,955
Current liabilities	Before Distribution		1,046,203	2,068,388	1,701,603	1,690,511	2,159,391
	After dividend distribution (Note 2)		1,057,996	2,111,724	1,893,575	1,872,388	(Note 2)
Non-current liabilities			77,153	29,591	19,941	1,399,212	1,767,018
Total liabilities	Before Distribution		1,123,356	2,097,979	1,721,544	3,089,723	3,926,409
	After dividend distribution (Note 2)		1,135,149	2,141,315	1,913,516	3,271,600	(Note 2)
Equity of the parent company			1,282,339	1,742,807	2,773,030	2,802,328	2,510,546
Common stock			561,561	666,709	945,673	930,623	930,453
Capital surplus			380,000	328,309	1,053,254	1,041,318	1,040,834
Retained earnings	Before Distribution		335,761	761,736	822,081	903,626	635,926
	After dividend distribution (Note 2)		220,640	545,056	630,109	721,749	(Note 2)
Other equity			5,017	(13,947)	(47,978)	(18,152)	(8,650)
Treasury stock			—	—	—	(55,087)	(88,017)
Non-controlling interest			468,608	—	—	—	—
Total equity	Before Distribution		1,750,947	1,742,807	2,773,030	2,802,328	2,510,546
	After dividend distribution (Note 2)		1,739,154	1,699,471	2,581,058	2,620,451	(Note 2)

Note 1: The above-mentioned financial data is audited and signed for approval or reviewed by a certified public accountant.

Note 2: The 2018 annual earnings distribution is subject to the resolution of the shareholders' meeting on June 5, 2019. Data not for the fiscal year does not apply to the earnings distribution.

Note 3: There is no cross-shareholding relationship between the Company and the de facto parties, Ocean Alexander Co., Ltd., Ocean Alexander Marine Yacht Sales Inc. and MIBW. However, based upon the integrity of faithful expression and information disclosure, the Company evaluates its ability to control the above-mentioned companies. Therefore, these companies will be included in the consolidated financial statements and parent company only financial reports. The table above is the re-edited financial report information for 2015.

(2) Condensed Balance Sheet - Parent Company

Unit: NTD thousand

Item \ Year		Financial information for the last five year				
		2014	2015 (Note 1, 2)	2016 (Note 1)	2017 (Note 1)	2018 (Note 1)
Current assets			1,413,389	2,014,324	2,999,067	2,684,669
Property, plant, and equipment			585,270	564,876	578,110	615,205
Intangible assets			2,625	2,330	3,035	3,490
Other assets			207,003	472,261	628,923	2,235,797
Total assets			2,208,287	3,053,791	4,209,135	5,539,161
Current liabilities	Before Distribution		848,796	1,281,393	1,416,164	1,378,848
	After dividend distribution (Note 3)		860,589	1,324,729	1,608,136	1,560,725
Non-current liabilities			77,152	29,591	19,941	1,357,985
Total liabilities	Before Distribution		925,948	1,310,984	1,436,105	2,736,833
	After dividend distribution (Note 3)		937,741	1,354,320	1,628,077	2,918,710
Equity of the parent company			1,282,339	1,742,807	2,773,030	2,802,328
Common stock			561,561	666,709	945,673	930,623
Capital surplus			380,000	328,309	1,053,254	1,041,318
Retained earnings	Before Distribution		335,761	761,736	822,081	903,626
	After dividend distribution (Note 3)		220,640	545,056	630,109	721,749
Other equity			5,017	(13,947)	(47,978)	(18,152)
Treasury stock			—	—	—	(55,087)
Non-controlling interest			—	—	—	—
Total equity	Before Distribution		1,282,339	1,742,807	2,773,030	2,802,328
	After dividend distribution (Note 3)		1,270,546	1,699,471	2,581,058	2,620,451

Note 1: The above financial data has been audited and signed off by a certified public accountant, and there is no need to issue a parent company only financial report for in the first quarter of 2019.

Note 2: There is no cross-shareholding relationship between the Company and the de facto parties, Ocean Alexander Co., Ltd., Ocean Alexander Marine Yacht Sales Inc. and MIBW. However, based upon the integrity of faithful expression and information disclosure, the Company evaluates its ability to control the above-mentioned companies. Therefore, these companies will be included in the consolidated financial statements and parent company only financial reports. The table above is the corrected financial report information for 2015.

Note 3: The 2018 annual surplus distribution is subject to the resolution of the shareholders' meeting on June 5, 2019. Surplus distribution does not apply to data not for the fiscal year.

(3) Consolidated Condensed Statements of Comprehensive Income

Unit: NTD thousand

Item \ Year	Financial information for the last five year					Financial information as of March 31, 2019 (Note 1)
	2014	2015 (Note 1, 2)	2016 (Note 1)	2017 (Note 1)	2018 (Note 1)	
Net sales		1,921,094	2,773,781	3,622,993	3,959,487	251,539
Gross profit		580,157	790,551	1,106,800	1,103,618	(12,500)
Operating profit		183,125	272,433	375,299	266,695	(245,875)
Non-operating income and expenses		(400)	(21,197)	(34,825)	124,616	(21,032)
Profit before income tax		182,725	251,236	340,474	391,311	(266,907)
Profit from continuing operations		190,542	322,827	273,998	358,783	(267,700)
Gain(loss) from discontinued operations		—	—	—	—	—
Net profit		190,542	322,827	273,998	358,783	(267,700)
Other comprehensive income		603	(1,230)	(39,933)	32,587	6,247
Total comprehensive income		191,145	321,597	234,065	391,370	(261,453)
Net profit attributable to owners of parent company		281,950	542,175	273,998	358,755	(267,700)
Net profit attributable to non-controlling interest		(91,408)	(219,348)	—	28	—
Total comprehensive income attributable to owners of the parent company		285,628	537,933	234,065	391,342	(261,453)
Total comprehensive income, attributable to non-controlling interest		(94,483)	(216,336)	—	28	—
Earnings per share		4.24	6.47	3.24	3.85	(2.96)

Note 1: The above-mentioned financial data is audited and signed for approval or reviewed by a certified public accountant.

Note 2: There is no cross-shareholding relationship between the Company and the de facto parties, Ocean Alexander Co., Ltd., Ocean Alexander Marine Yacht Sales Inc. and Merritt Island Boat Works, Inc. (MIBW). However, based upon the integrity of faithful expression and information disclosure, and after discussion with the independent auditor, the Company evaluates its ability to control the above-mentioned companies. Therefore, these companies will be included in the consolidated financial statements and parent company only financial reports. The table above is the re-edited financial report information for 2015.

(4) Condensed Statements of Comprehensive Income – Parent Company

Unit: NTD thousands, except Earnings Per Share (NTD)

Item \ Year	Financial information for the last five year				
	2014	2015 (Note 1, 2)	2016 (Note 1)	2017 (Note 1)	2018 (Note 1)
Net sales		1,206,617	1,399,604	1,721,140	1,503,915
Gross profit		231,226	270,896	377,964	302,119
Operating profit		179,242	171,128	214,435	166,483
Non-operating income and expenses		165,216	384,206	109,771	224,455
Profit before income tax		344,458	555,334	324,206	390,938
Profit from continuing operations		281,950	542,175	273,998	358,755
Gain(loss) from discontinued operations		—	—	—	—
Net profit		281,950	542,175	273,998	358,755
Other comprehensive income		3,678	(4,242)	(39,933)	32,587
Total comprehensive income		285,628	537,933	234,065	391,342
Net profit attributable to owners of parent company		281,950	542,175	273,998	358,755
Net profit attributable to non-controlling interest		—	—	—	—
Total comprehensive income attributable to owners of the parent company		285,628	537,933	234,065	391,342
Total comprehensive income, attributable to non-controlling interest		—	—	—	—
Earnings per share		4.24	6.47	3.24	3.85

Note 1: The above financial data has been audited and signed off by a certified public accountant

Note 2: There is no cross-shareholding relationship between the Company and the de facto parties, Ocean Alexander Co., Ltd., Ocean Alexander Marine Yacht Sales Inc. and Merritt Island Boat Works, Inc. (MIBW). However, based upon the integrity of faithful expression and information disclosure, and after discussion with the independent auditor, the Company evaluates its ability to control the above-mentioned companies. The table above is the corrected financial report information for 2015.

II. Taiwan's financial accounting standards (ROC GAAP)

(1) Condensed Consolidated Balance Sheet

Unit: NTD thousand

Item \ Year		Financial information for the last five year				
		2014	2015	2016	2017	2018
Current assets		1,582,861	Not applicable (The Company has been using the International Financial Reporting Standards to prepare financial reports since the beginning of 2015)			
Fund and investment		22,503				
Fixed assets (Note 2)		561,398				
Intangible assets		30,330				
Other assets		3,674				
Total assets		2,200,766				
Current liabilities	Before Distribution	1,073,173				
	After Distribution	1,084,005				
Long term liabilities		8,411				
Other liabilities		34,801				
Total liabilities	Before Distribution	1,116,385				
	After Distribution	1,127,217				
Capital stock		541,561				
Capital surplus		—				
Retained earnings	Before Distribution	62,842				
	After Distribution	52,010				
Unrealized gain/loss on financial instrument		—				
Adjustment of accumulated conversion		39				
Net loss not recognized as pension cost		(1,582)				
Unrealized land re-assessment and appreciation (Note 2)		33,344				
Total shareholders' equity	Before Distribution	1,084,381				
	After Distribution	1,073,549				

Note 1: There is no cross-shareholding relationship between the Company and the de facto parties, Ocean Alexander Co., Ltd., Ocean Alexander Marine Yacht Sales Inc. and Merritt Island Boat Works, Inc. (MIBW). However, based upon the integrity of faithful expression and information disclosure, and after discussion with the independent auditor, the Company evaluates its ability to control the above-mentioned companies. Therefore, these companies will be included in the consolidated financial statements and parent company only financial reports. The table above is the re-edited financial information.

Note 2: The Company handled the land re-assessment on January 1, 2011, according to the present value of the announcement, and NT$33,344,000 is the unrealized land re-assessment and appreciation.

(2) Condensed Balance Sheet – Parent Company

Unit: NTD thousand

Item \ Year		Financial information for the last five year				
		2014 (Note 1, 3)	2015	2016	2017	2018
Current assets		909,468	Not applicable (The Company has been using the International Financial Reporting Standards to prepare financial reports since the beginning of 2015)			
Fund and investment		22,503				
Fixed assets (Note 2)		546,696				
Intangible assets		30,330				
Other assets		2,620				
Total assets		1,511,617				
Current liabilities	Before Distribution	832,361				
	After Distribution	843,193				
Long term liabilities		8,411				
Other liabilities		34,641				
Total liabilities	Before Distribution	875,413				
	After Distribution	886,245				
Capital stock		541,561				
Capital surplus		—				
Retained earnings	Before Distribution	62,842				
	After Distribution	52,010				
Unrealized gain/loss on financial instrument		—				
Adjustment of accumulated conversion		39				
Net loss not recognized as pension cost		(1,582)				
Unrealized land re-assessment and appreciation (Note 2)		33,344				
Total shareholders' equity	Before Distribution	636,204				
	After Distribution	625,372				

Note 1: The financial information for the year 2014 is based on the financial report prepared in accordance with ROC GAAP and audited by the accountant. Relevant notes disclosure are prepared based on the "Business Entity Accounting Act" and not the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

Note 2: The Company handled the land re-assessment on January 1, 2011, according to the present value of the announcement, and NT$33,344,000 is the unrealized land re-assessment and appreciation.

Note 3: There is no cross-shareholding relationship between the Company and the de facto parties, Ocean Alexander Co., Ltd., Ocean Alexander Marine Yacht Sales Inc. and Merritt Island Boat Works, Inc. (MIBW). However, based upon the integrity of faithful expression and information disclosure, and after discussion with the independent auditor, the Company evaluates its ability to control the above-mentioned companies. The table above is the corrected financial report information for various years.

(3) Condensed Consolidated Income Statement

Unit: NTD thousand

Item \ Year	Financial information for the latest 5 years (Note 1)				
	2014	2015	2016	2017	2018
Net sales	1,454,130	Not applicable (The Company has been using the International Financial Reporting Standards to prepare financial reports since the beginning of 2015)			
Gross profit	306,275				
Operating profit	20,728				
Non-operating income and gains	57,583				
Non-operating expenses and losses	(9,604)				
Profit before income tax from continuing operations	68,707				
Net profit from continuing operations	57,199				
Gains and losses from discontinued operations	—				
Extraordinary gains and losses	—				
Accumulative effects of changes in accounting policies	—				
Net profit attributed to owners of the parent company	56,224				
Net profit attributed to non-controlling interest	975				
Earnings per share (NTD)	$1.04				

(4) Condensed Income Statement – Parent Company

Unit: NTD thousand

Item \ Year	Financial information for the latest 5 years (Note 1)				
	2014	2015	2016	2017	2018
Net sales	687,003	Not applicable (The Company has been using the International Financial Reporting Standards to prepare financial reports since the beginning of 2015)			
Gross profit	97,744				
Operating profit	63,007				
Non-operating income and gains	16,938				
Non-operating expenses and losses	(12,213)				
Profit before income tax from continuing operations	67,732				
Net profit from continuing operations	56,224				
Gains and losses from discontinued operations	—				
Extraordinary gains and losses	—				
Accumulative effects of changes in accounting policies	—				
Net profit	56,224				
Earnings per share (NTD)	1.04				

Note 1: The financial data in the preceding paragraph were with the auditing and attestation performed by the CPAs.

Note 2: There is no cross-shareholding relationship between the Company and the de facto parties, Ocean Alexander Co., Ltd., Ocean Alexander Marine Yacht Sales Inc. and Merritt Island Boat Works, Inc. (MIBW). However, based upon the integrity of faithful expression and information disclosure, and after discussion with the independent auditor, the Company evaluates its ability to control the above-mentioned companies. Therefore, these companies will be included in the consolidated financial statements and parent company only financial reports. The table above is the re-edited (merged) or corrected (parent company only) financial report information.

6.1.2. Important issues affecting the consistency of the above condensed financial statements such as accounting changes, company mergers or business unit shutdowns and so on, and their impact on the financial report for the year: None.

6.1.3 Names of CPAs and their opinions for the most recent 5 years.

Year	CPA Firm	Name of auditor	Audit opinions
2014	Ernst & Young	Shih Chieh, Huang Cheng Chu, Chen	Revised unqualified opinion
2015	Ernst & Young	Shih Chieh, Huang Cheng Chu, Chen	Revised unqualified opinion
2016	Ernst & Young	Cheng Chu, Chen Fang Wen, Li	Unqualified opinion
017	Ernst & Young	Cheng Chu, Chen Fang Wen, Li	Unqualified opinion
2018	Ernst & Young	Cheng Chu, Chen Fang Wen, Li	Unqualified opinion

6.1.4 If there is a change of CPA in the past five years, the Company, explanation made by the Company's previous and current CPA over the causes for such change shall be set forth.

Year	Replacement	CPA Firm	Name of auditor	Reason for replacement
2014	Predecessor	Ernst & Young	Shih Chieh, Huang	In accordance with Article 2 of the "Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies".
2014	Successor		Shih Chieh, Huang Cheng Chu, Chen	
2016Q2	Predecessor	Ernst & Young	Shih Chieh, Huang Cheng Chu, Chen	Due to the requirement of the internal rotation policy of Ernst & Young, on June 15, 2016 the Company's board of directors passed the resolution of the replacement of certified public accountants (CPAs) to CPA Chen Cheng Chu and Li Fang Wen, starting from quarter two of 2016 for the independent audit of the consolidated financial reports.
2016Q2	Successor		Cheng Chu, Chen Fang Wen, Li	

6.2. Five-Year Financial Analysis

6.2.1 International Financial Reporting Standards

I. Financial analysis for consolidated financial statements

Analysis items (Note 3) \ Year		Financial Analysis for the most recent five years					Up till March 31, 2019 (Note 1)
		2014 (Note 1)	2015 (Note 1)	2016 (Note 1)	2017 (Note 1)	2018 (Note 1)	
Financial structure (%)	Debt to assets ratio	51.57	39.08	54.62	38.30	52.44	61.00
	Ratio of long-term capital to property, plant and equipment	196.67	241.11	248.58	395.14	377.76	372.98
Solvency (%)	Current ratio	146.68	187.39	138.71	207.83	265.38	213.49
	Quick ratio	52.46	59.04	35.51	56.55	88.56	53.43
	Interest coverage ratio	961.52	1,978.73	2,066.72	1,695.32	1,222.84	(2,109.31)
Operating ability	Account receivable turnover (times)	21.07	7.96	13.04	12.01	6.58	2.62
	Days sales in account receivable	17	46	28	30	55	139
	Inventory turnover (times)	1.62	1.28	1.21	1.13	1.08	0.36
	Account payable turnover (times)	18.53	13.81	16.50	18.03	14.41	4.55
	Average days for sales	225	285	302	323	338	1,013.89
	Property, plant, and equipment turnover (times)	2.63	2.91	3.77	5.10	4.35	0.89
	Total assets turnover (times)	0.77	0.76	0.83	0.87	0.76	0.16
Profitability	Return on assets (%)	3.43	7.86	9.93	7.00	7.45	(4.19)
	Return on equity (%)	5.40	13.58	18.48	12.13	12.87	(10.08)
	Percentage of net profit before tax to the paid-in capital (%)	12.87	32.54	37.68	36.00	42.05	(28.69)
	Net profit rate (%)	3.99	9.92	11.64	7.56	9.06	(106.42)
	Earnings per share ($) (Note 2)	1.05	4.24	6.47	3.24	3.85	(2.96)
Cash flows (Note 5)	Cash flow ratio (%)	22.63	(66.33)	8.22	(68.69)	(2.19)	(7.47)
	Cash flow adequacy ratio (%)	122.20	(19.53)	1.76	(49.85)	(52.22)	(63.96)
	Cash flow reinvestment ratio (%)	20.69	(38.28)	9.08	(43.09)	(5.42)	(4.18)
Leverage	Operating leverage	12.84	2.82	2.68	2.65	3.64	0.42
	Financial leverage	1.59	1.06	1.05	1.06	1.15	0.95

The changes in the various financial ratios in the last two years has reached 20%.

1. The increase of debt ratio is mainly due to the more borrowings under 5-year syndicated loans signed in 2018.
2. The increase of current ratio is attributable to more inventory, from more agent brands and capacity expansion, and higher cash balance from accounts receivable collection.
3. The improvement of quick ratio is attributable to higher cash balance from accounts receivable collection.
4. The increase of receivables turnover rate and collection days are mainly resulted from higher accounts receivable at the end of 2018.
5. The reduction of interest coverage ratio is attributable to more interest expenses from the increased loans to fulfill operating cash needs.
6. The reduction of payable turnover rate is attributable to increased accounts payable balance at the end of 2018.
7. The improvement of cash flow ratio is attributable to smaller cash outflow from operating activities.
8. The increase of cash flow reinvestment ratio is attributable to smaller cash outflow from operating activities and more capital expenditure.
9. The higher operating leverage is attributable to lower operating profit, mainly due to more operating expenses from more operation sites.

II. Financial analysis for parent company financial statements

Analysis items (Note 3) \ Year		Financial Analysis for the most recent five years				
		2014 (Note 1)	2015 (Note 1)	2016 (Note 1)	2017 (Note 1)	2018 (Note 1)
Financial structure (%)	Debt to assets ratio	59.25	41.93	42.93	34.12	49.41
	Ratio of long-term capital to property, plant and equipment	126.90	232.28	313.77	483.12	676.25
Solvency (%)	Current ratio	113.50	166.52	157.20	211.77	194.70
	Quick ratio	50.64	80.99	81.09	143.16	118.21
	Interest coverage ratio	954.11	3,665.08	4,453.51	1,736.91	1,551.90
Operating ability	Account receivable turnover (times)	2.43	2.41	1.91	2.14	1.68
	Days sales in account receivable	150	151	191	171	217
	Inventory turnover (times)	1.63	1.69	1.43	1.51	1.30
	Account payable turnover (times)	10.20	11.50	9.67	10.24	10.28
	Average days for sales	224	216	255	242	281
	Property, plant, and equipment turnover (times)	1.27	2.13	2.43	3.01	2.52
	Total assets turnover (times)	0.54	0.65	0.53	0.47	0.31
Profitability	Return on assets (%)	5.05	15.68	21.01	8.00	7.80
	Return on equity (%)	9.82	29.84	35.84	12.13	12.87
	Percentage of net profit before tax to the paid-in capital (%)	12.69	61.34	83.29	34.28	42.01
	Net profit margin (%)	8.30	23.37	38.74	15.92	23.85
	Earnings per share ($) (Note 2)	1.05	4.24	6.47	3.24	3.85
Cash flows (Note 5)	Cash flow ratio (%)	(7.60)	(48.89)	(14.71)	(59.17)	(31.99)
	Cash flow adequacy ratio (%)	72.45	(30.56)	(45.61)	(134.42%)	(165.44%)
	Cash flow reinvestment ratio (%)	(7.94)	(29.73)	(10.76)	(30.58)	(14.82)
Leverage	Operating leverage	2.73	1.79	2.05	2.05	1.96
	Financial leverage	1.14	1.06	1.08	1.10	1.19

The changes in the various financial ratios in the last two years has reached 20%.

1. The increase of debt ratio is mainly due to the more borrowings under 5-year syndicated loans signed in 2018.
2. The increase of ratio of long-term capital to PP&E is mainly due to the more borrowings under 5-year syndicated loans signed in 2018.
3. The increase of receivables turnover rate and collection days are mainly resulted from higher accounts receivable at the end of 2018.
4. The reduction of total asset turnover ratio is attributable to more investment accounted under the equity method.
5. The reduction of ratio of operating profit to paid-in capital is attributable to lower gross profit and operating profit in 2018.
6. The improvement of ratio of profit before income tax to paid-in capital is attributable to the increased foreign currency exchange gains in 2018.
7. The higher net margin is attributable to the increased foreign currency exchange gains in 2018.
8. The improvement of cash flow ratio is attributable to smaller cash outflow from operating activities.
9. The increase of cash flow adequacy ratio and cash flow reinvestment ratio is attributable to smaller cash outflow from operating activities and increased investment accounted under equity method. The main purpose of the investment is for capacity expansion.

Note 1: The abovementioned financial information is audited and signed for approval or reviewed by a certified public accountant.

Note 2: The calculation of earnings per share adopted retroactive adjustment.

Note 3: The formula for the calculation of the analyzed items is as follows:

1. Financial structure
   (1) Ratio of debts to asset =Total liabilities / total assets.
   (2) Ratio of long-term capital to property, plant and equipment = (Total equities + non-current liabilities) / property, plant and equipment.
2. Solvency
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets – inventories - prepaid expense) / current liabilities
   (3) Interest coverage ratio = net profit before interest and tax / interest expenses for the current period.
3. Operating ability
   (1) Receivable (including accounts receivable and notes receivable arising from business operation) Turnover = Net sales / average receivable (including accounts receivable and notes receivable arising from business operation) balance
   (2) Days sales in account receivable = 365 / Account receivable turnover (times)
   (3) Inventory turnover (times) = Cost of goods sold / average inventory amount
   (4) Payable (including accounts payable and notes payable arising from business operation) Turnover = Cost of goods sold / Average payable (including accounts payable and notes payable arising from business operation) balance
   (5) Average days for sales = 365 / Inventory turnover (times)
   (6) Property, plant, and equipment turnover (times) = Net sales / Net average property, plant, and equipment
   (7) Total assets turnover (times) = Net sales / Average total assets
4. Profitability
   (1) Return on assets = (after tax net profit + interest expenses x (1- tax rate)) / average total assets
   (2) Return on shareholders' equity = net profit after tax / average total equity
   (3) Net profit margin = net income / net sales
   (4) Earnings per share = (Income attributable to parent company – dividends from preferred shares) / weighed average quantity of outstanding shares. (Note 4)
5. Cash flow
   (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
   (2) Cash flow adequacy ratio = net cash flow from operating activities within five years / (capital expenditure + inventory increase +cash dividend) within five years
   (3) Cash re-investment ratio = (net cash flow from operating activity-cash dividend) / (gross property, plant, and equipment + long-term investment + other noncurrent assets + working capital) (Note 5)
6. Leverage:
   (1) Operating leverage = (Net operating income - Changes in operating cost and expense) / Operating profit (Note 6)
   (2) Financial leverage = Operating profit / (Operating profit - interest expense)

Note 4: The calculation of earnings per share in the preceding paragraph should be with the following matters taken into consideration for measurement:

1. Weighted average quantity of shares is on the basis of common stock, not the outstanding shares as of the end of the year.
2. The quantity of new shares for raising new capital or treasury stock trade shall be included in the weighted average quantity of shares during their effective term.
3. Where the shares may be issued through the capitalization of retained earnings or capital surplus, make adjustment in proportion to the quantity of shares issued in calculating the semi-annual or annual earnings per share of the year. The period for the release of such new shares may be omitted.
4. If the prefer stock is inconvertible cumulative preferred stock, the current stock divided (regardless distributed or not) should be deducted from the net income or added to the net loss. If the prefer stock is not cumulative, the current stock divided should be deducted from the net income, if any, but without the need of making any adjustment if there is net loss instead of net income.

Note 5: Consider the followings in conducting cash flow analysis:

1. Net cash flow from operation refers to net cash inflow from operation as stated in the Statement of Cash Flow.
2. Capital spending refers to the cash outflow to annual capital investments.

3. Increase in inventory will be counted only when the ending inventory amount exceeding the beginning inventory amount. The decrease in inventory at yearend will be treated as zero change.
4. Cash Dividends includes the dividends in cash paid to holders of common shares and preferred shares.
5. The gross property, plant, and equipment refer to the total amount of property, plant, and equipment before deducting the accumulated depreciation.

Note 6: The issuer should have the operating cost and operating expense classified as fixed and variable by the nature of operation. If it involves estimates or subjective judgments made, please pay attention to its rationality and consistency.

6.2.2 Taiwan's Financial Accounting Standards (ROC GAAP)

I. Financial analysis for consolidated financial statements

Analysis items (Note 3) \ Year			Financial analysis for the latest 5 years (Note 1)				
			2014	2015	2016	2017	2018
Financial structure (%)	Debt to assets ratio		60.90	Not applicable (The Company has been using the International Financial Reporting Standards to prepare financial reports since the beginning of 2015)			
	Long term capital as a percentage of fixed assets		123.68				
Solvency (%)	Current ratio		107.78				
	Quick ratio		32.49				
	Interest coverage ratio		939.83				
Operating ability	Account receivable turnover (times)		5.86				
	Days sales in account receivable		62				
	Inventory turnover (times)		1.04				
	Average days in sales		352				
	Account payable turnover (times)		7.90				
	Fixed assets turnover (times)		1.17				
	Total assets turnover (times)		0.47				
Profitability	Return on assets (%)		4.70				
	ROE (%)		9.23				
	As a percentage of paid up capital (%)	Operating profit	10.84				
		Profit before tax	12.51				
	Net profit margin (%)		8.85				
	Earnings per share ($) (Note 2)		1.04				
Cash flows (Note 5)	Cash flow ratio (%)		21.94				
	Cash flow adequacy ratio (%)		23.35				
	Cash flow reinvestment ratio (%)		19.86				
Leverage	Operating leverage		2.79				
	Financial leverage		1.16				

II. Financial analysis for parent-company financial statements

Analysis items (Note 3) \ Year			Financial analysis for the latest 5 years (Note 1)				
			2014	2015	2016	2017	2018
Financial structure (%)	Debt to assets ratio		57.90	Not applicable (The Company has been using the International Financial Reporting Standards to prepare financial reports since the beginning of 2015)			
	Long term capital as a percentage of fixed assets		116.37				
Solvency (%)	Current ratio		109.26				
	Quick ratio		55.08				
	Interest coverage ratio		9.42				
Operating ability	Account receivable turnover (times)		2.43				
	Days sales in account receivable		150				
	Inventory turnover (times)		1.63				
	Account payable turnover (times)		10.23				
	Average days in sales		224				
	Fixed assets turnover (times)		1.27				
	Total assets turnover (times)		0.54				
Profitability	Return on assets (%)		4.90				
	ROE (%)		9.23				
	As a percentage of paid up capital (%)	Operating profit	11.63				
		Profit before tax	12.51				
	Net profit margin (%)		8.18				

Analysis items (Note 3) \ Year		Financial analysis for the latest 5 years (Note 1)				
		2014	2015	2016	2017	2018
	Earnings per share ($) (Note 2)	1.04				
Cash flows (Note 5)	Cash flow ratio (%)	(8.22)				
	Cash flow adequacy ratio (%)	24.48				
	Cash flow reinvestment ratio (%)	(9.32)				
Leverage	Operating leverage	2.75				
	Financial leverage	1.15				

Note 1: The abovementioned financial information is audited and signed for approval or reviewed by a certified public accountant.

Note 2: The calculation of earnings per share adopted retroactive adjustment.

Note 3: The formula for the calculation of the analyzed items is as follows:

1. Financial structure
   (1) Ratio of debts to asset =Total liabilities / total assets.
   (2) Ratio of long-term capital to property, plant and equipment = (Total equities + non-current liabilities) / property, plant and equipment.
2. Solvency
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio = (current assets – inventories - prepaid expense) / current liabilities
   (3) Interest coverage ratio = net profit before interest and tax / interest expenses for the current period.
3. Operating ability
   (1) Receivable (including accounts receivable and notes receivable arising from business operation) Turnover = Net sales / average receivable (including accounts receivable and notes receivable arising from business operation) balance
   (2) Days sales in account receivable = 365 / Account receivable turnover (times)
   (3) Inventory turnover (times) = Cost of goods sold / average inventory amount
   (4) Payable (including accounts payable and notes payable arising from business operation) Turnover = Cost of goods sold / Average payable (including accounts payable and notes payable arising from business operation) balance
   (5) Average days for sales = 365 / Inventory turnover (times)
   (6) Property, plant, and equipment turnover (times) = Net sales / Net average property, plant, and equipment
   (7) Total assets turnover (times) = Net sales / Average total assets
4. Profitability
   (1) Return on assets = (after tax net profit + interest expenses x (1- tax rate)) / average total assets
   (2) Return on shareholders' equity = net profit after tax / average total equity
   (3) Net profit margin = net income / net sales
   (4) Earnings per share = (Income attributable to parent company – dividends from preferred shares) / weighed average quantity of outstanding shares. (Note 4)
5. Cash flow
   (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
   (2) Cash flow adequacy ratio = net cash flow from operating activities within five years / (capital expenditure + inventory increase +cash dividend) within five years
   (3) Cash re-investment ratio = (net cash flow from operating activity-cash dividend) / (gross property, plant, and equipment + long-term investment + other noncurrent assets + working capital) (Note 5)
6. Leverage:
   (1) Operating leverage = (Net operating income - Changes in operating cost and expense) / Operating profit (Note 6)
   (2) Financial leverage = Operating profit / (Operating profit - interest expense)

Note 4: The calculation of earnings per share in the preceding paragraph should be with the following matters taken into consideration for measurement:

1. Weighted average quantity of shares is on the basis of common stock, not the outstanding shares as of the end of the year.
2. The quantity of new shares for raising new capital or treasury stock trade shall be included in the weighted average quantity of shares during their effective term.

3. Where the shares may be issued through the capitalization of retained earnings or capital surplus, make adjustment in proportion to the quantity of shares issued in calculating the semi-annual or annual earnings per share of the year. The period for the release of such new shares may be omitted.
4. If the prefer stock is inconvertible cumulative preferred stock, the current stock divided (regardless distributed or not) should be deducted from the net income or added to the net loss. If the prefer stock is not cumulative, the current stock divided should be deducted from the net income, if any, but without the need of making any adjustment if there is net loss instead of net income.

Note 5: Consider the followings in conducting cash flow analysis:

1. Net cash flow from operation refers to net cash inflow from operation as stated in the Statement of Cash Flow.
2. Capital spending refers to the cash outflow to annual capital investments.
3. Increase in inventory will be counted only when the ending inventory amount exceeding the beginning inventory amount. The decrease in inventory at yearend will be treated as zero change.
4. Cash Dividends includes the dividends in cash paid to holders of common shares and preferred shares.
5. The gross property, plant, and equipment refer to the total amount of property, plant, and equipment before deducting the accumulated depreciation.

Note 6: The issuer should have the operating cost and operating expense classified as fixed and variable by the nature of operation. If it involves estimates or subjective judgments made, please pay attention to its rationality and consistency.

6.3 Consolidated Financial Statement for the Years Ended December 31, 2018 and 2017, and Independent Auditor's Report: Please refer to Attachment 1.

6.4 Financial Statement of the parent company for the Years Ended December 31, 2018 and 2017, and Independent Auditor's Report: Please refer to Attachment 2.

6.5 The Impact on the Company's Financial Status in Cases where the Company or its Affiliated Had Financial Difficulties.

6.6 Audit Committee's Audit Report on the Financial Statement for the Most Recent Year:

Audit Committee's Audit Report

The board of directors prepared the 2018 operating report, financial statement, and surplus distribution plans, among which Ernst & Young is commissioned to audit the financial statement and to issue an independent auditor's report. The abovementioned operating report, financial statement, and surplus distribution plan, has been audited by this review committee, and the result shows no discrepancies, in accordance with the Securities and Exchange Act and Company Act.

Alexander Marine Co., Ltd.

Chair of the Audit Committee: Chang Ming Cheng

March 18, 2019

VII. Review of Financial Conditions, Operating Results, and Risk Management

7.1 Analysis of Financial status

Analysis of main reason and other influences to the occurrence of major changes in assets, liabilities, and equity in the recent two years:

Unit: NTD thousand

Item \ Year	2018	2017	Increase (decrease) amount	Year-over-Year (%)	Remarks
Current assets	4,486,280	3,536,480	949,800	26.86	1
Non-current assets	1,405,771	958,094	447,677	47.63	2
Total assets	5,892,051	4,494,574	1,397,477	31.09	1、2
Current liabilities	1,690,511	1,701,603	(11,092)	(0.65)	
Non-current liabilities	1,399,212	19,941	1,379,271	6,916.76	3
Total liabilities	3,089,723	1,721,544	1,368,179	79.47	3
Common stock	930,623	945,673	(15,050)	(1.59)	
Capital surplus	1,041,318	1,053,254	(11,936)	(1.13)	
Retained earnings	903,626	822,081	81,545	9.92	
Other equity	(18,152)	(47,978)	(29,826)	62.17	
Treasury shares	(55,087)	-	(55,087)	n.a	
Non-controlling interest	-	-	-	-	
Total shareholders' equity	2,802,328	2,773,030	29,298	1.06	

Changes reaches 20% and above in the amount, and the amount reaches 1% and above of the total amount of assets for the year, the reason for the changes is described as below:

1. Increase in current assets. The main reason is due to the borrowing of long-term loans leading to the increase in cash and cash equivalents, and due to the growth of orders and revenues, and the increase in receivables, stock and advances.
2. Increase in non-current assets. The main reason is due to the acquisition of subsidiaries leading to the increase in real property, plant and equipment.
3. Increase in non-current liabilities is due to the borrowing of long-term loans.

7.2 Analysis of Financial Performance

7.2.1 Operating results comparison for the most recent two years:

Unit: NTD thousand

Item \ Year	2018	2017	Increase (decrease) amount	Year-over-Year (%)	Remarks
Net sales	3,959,487	3,622,993	336,494	9.29	1
Operating cost	2,855,869	2,516,193	339,676	13.50	1
Gross profit	1,103,618	1,106,800	(3,182)	(0.29)	
Operating expenses	836,923	731,501	105,422	14.41	2
Operating profit	266,695	375,299	(108,604)	(28.94)	3
Non-operating income and expenses	124,616	(34,825)	159,441	n.a	4
Profit before income tax	391,311	340,474	50,837	14.93	5
Income tax benefit (expense)	32,528	66,476	(33,948)	(51.07)	6
Net income	358,783	273,998	84,785	30.94	4、6
Other comprehensive profit or loss	32,587	(39,933)	72,520	n.a	7
Comprehensive income	391,370	234,065	157,305	67.21	4、6、7
Net profit attributable to Owners of the parent company	358,783	273,998	84,785	30.93	4、6
Net profit attributable to non-controlling interest	28	—	28	n.a	
Total comprehensive income attributable to owners of the parent company	391,370	234,065	157,305	67.21	4、6、7
Comprehensive income, gross, attributable to non-controlling interest	28	—	28	n.a	

Changes in amount reach 20% and above, and the amount reaches 1% and more of the net sales for the current year, reasons for the changes are explained as below:

1. Increase in revenue and cost is due to a boom in economy. Yacht sales growth brings about related income and costs increase.
2. Increase in operating expenses is due to growth in operating scale, and the result of increase in related marketing and management expenses.
3. Reduction in operating profit is due to reduction in operating profit margin and increase operating expenses.
4. Increase in non-operating expenses is due to increase in foreign exchange gain.
5. Increase in profit before tax primarily because of increase in revenue growth and foreign exchange gain.
6. Reduce tax expense for current period primarily because of undistributed surplus tax and the reduction in one time influence factor of US tax change.
7. Increase in other consolidated profit and loss primarily because of increase in foreign exchange gain in the financial statement conversion.

7.2.2 Operating projection, assumptions, impact to financial and business performance, and future response measures:

The Company is a globally well-known luxury yacht brand company. In particular in the US market, where it stands at the front. Besides being self-owned brand, it also acts as brand agent for small size yachts, the production line covers a broad range of sizes, and the huge differences in the prices for yachts of different sizes. Thus, it is not suitable to use sales volume as measurement basis. The Company continues its efforts in developing new products, following the strategy of future market expansion, and makes plans for suitable exterior and interior design decoration of yachts. It maintains its brand competitiveness by leading product trends in the market to meet customers' needs. The Company observes overall changes in the economic environment and considered factors like market needs, new product promotion schedule, agents' orders and so on, to draw up the production schedule for the factories in

response to full load by the factories in Taiwan and the lease of other factories. The old factories will be renovated, in the hope to gradually expand the production capacity after the completion of the new product line establishment. Before the benefits contribution of the new products surface, the Company will maintain the operations growth stability trend through optimizing its product portfolio, and strengthening its after-sales maintenance service businesses.

7.3 Analysis of Cash flow

7.3.1 Cash flow analysis for the recent years:

Unit: NTD thousand

Item	2018	2017	Change amount	Variation Ratio (%)
Net cash used in operating activities	(36,981)	(1,168,751)	1,131,770	-96.84
Net cash used in investing activities	(453,969)	(7,012)	(446,957)	6,374.17
Net cash provided by financing activities	914,031	919,703	(5,672)	-0.62
Impact of foreign exchange rate	24,196	(18,388)	42,584	n.a
Net change in cash	447,277	(274,448)	721,725	n.a

Cash flow analysis for 2018:
1. Operating activities: Excluding the influence of income taxes, cash provided by operations is NT$30.7 million.
2. Investment activities: Primarily because of mergers and acquisitions of subsidiaries and the purchase of fixed assets.
3. Financing activities: Primarily because of long term loans increase.

7.3.2 Remedial actions for cash shortfall:

The Company's capital is considered to be sufficient.

7.3.3 Cash liquidity analysis for the coming year:

On the premise of maintaining a steady cash liquidity, the Company will make prudent plans and control of cash expenditure of related investment and operations by deliberating on the financial market situation based on cash balance on the book, and cash flow of operating activities and investment activities.

7.4 Major Capital Expenditure Items

In line with production expansion plan, the main capital expenditure of the Company for 2018 is renovation work for new newly rented factories, purchase of plants and equipment; capital expenditure amount is about NT$82 million. This would be helpful for future production capacity expansion, and hopeful for increasing revenue growth.

7.5 Investment Policy in the Most Recent year, Main Causes for Profits or Losses, Investment Plans and the Investment Plans for the Coming Year

The Company possesses excellence and professional technology, plus the advantage of being a deeply rooted self-owned international brand. Current business is of continuous growth and for original plants where they could not satisfy customers' needs, scope of re-investment for the recent year includes capacity acquisition, sales and expansion of related yacht industry businesses. Currently, the Company holds 100% ownership of the subsidiaries. Please refer to page 90 of this report for information of various related companies.

Management philosophy is based on continuous improvements of customer service quality. Depending on future business requirements, the Company will actively develop new yacht models to strengthen its product portfolio, and enrich the factory production capacity, expand sales and points of services, to be close to the overseas market and customers' demands. Future investment plans will still focus on value chain strategic investments and make prudent assessment of various investment plans in consideration of market dynamics and operation situations.

7.6 Analysis of Risk Management

7.6.1 Effects of changes in interest rates, foreign exchange rates and inflation on corporate finance, and future response measures:

I. Interest rate:

Interests expenditure in 2018 and 2017 accounts for 0.88% and 0.59% of net business revenues respectively. The Company signed syndicated loan contracts with Chung Hwa Bank and other banks. Increase in borrowing amount leads to increasing interests expenditure, its proportion to business revenues is very slight. Thus, changes in interests do not have huge impacts on the Company. The Company has full-time staff who will maintain close contact with the banks, who will assess changes in bank interests anytime, and obtain the lowest capital cost to ensure impacts to the Company by any changes in interests are reduced to the minimum.

II. Foreign exchange rate:

Majority of the Company's revenue comes from export sales. US dollars are the primary functional currency for price quotation of all receivables and payables. As key spare parts mainly rely on imports, any changes to US dollar exchange rates will bring about differences in the price quotations. In addition, due to currency exchange risks of financial statements of overseas operations institutions, in order to lower the losses in foreign currency exchange, the Company adopts the following response measures:

(1) Most of the Company's receivable and payable foreign currency items use the same currency, of which imports that use foreign currencies for price quotations stands at 80%. Therefore, foreign currency position resulted eventually has risk avoidance effects. Besides this, the Company establishes procedures for derivatives transactions, includes specification of tools to avoid foreign exchange risks such as undertaking forward exchange contracts or foreign exchange options, and so on. Transaction parties are also limited to financial institutions that have frequent interactions with the Company's businesses, in order to prevent credit risks from arising.

(2) The Company maintains close contact with banks with frequent interactions, and well grasps related information of foreign currency changes to evaluate trends of future foreign exchange rates. At the same time, through position management of NTD and foreign currency accounts dispatchment, and making comprehensive considerations and assessments of factors for foreign currency rates trends and influences before giving price quotations to the customers, to decide on a suitable and reasonable price quotation. Strives to lower the impacts of exchange rates changes to the Company's business profits.

(3) Pays close attention to international financial situations by involving the banks to provide professional consulting services, and compiles situations of exchange rates changes anytime. Pays attention to trends of market capital flows, to research and determine the attitude and measures of authoritative institutions to the foreign exchange rates adjustments, and the influences on the range of fluctuations for foreign currency borrowing rates, adjusting the point of time for loans return at any time.

III. Inflation:

The Company's past profit and loss has no major impacts occurred from inflation. It has been closely monitoring the changes in raw material market prices, and maintains good interactions and relationships with major suppliers, in order to acquire a stable and competitive market import price.

7.6.2 Policies, main causes of gain or loss and future response measures with respect to high-risk, high-leveraged investments, lending or endorsement guarantees, and derivatives transactions:

I. In the recent year and until the date of publication for the annual report, the Company has focused on the management of core business, and has not engaged in any high risk and leverage investments and financial derivatives.

II. Lending funds and policy shall be in accordance with "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" and the Company's "Procedures for lending funds to other parties." Lending funds situation should be publicly announced each month. The Company's lending funds and situation until the date of publication of the annual report is stated as below:

(1) The board of directors passed the resolution on February 26, 2018, based on the needs of businesses, the first tier subsidiary AMI shall lend funds to second tier subsidiary MIBW with the loan amount capped at US$3 million.

(2) The board of directors passed the resolution on February 26, 2018 and March 30, 2018, that it shall transfer the receivables of AMI related parties that is beyond the credit period to be recognized as accommodations nature in accordance with related regulations.

(3) The board of directors passed the resolution on November 12, 2018, to transfer the receivables of AMI related parties that is beyond the credit period to be recognized as accommodations nature in accordance with related regulations.

(4) The board of directors passed the resolution on November 12, 2018, deciding to lend funds to subsidiary AMI with a capped amount of US$5 million, for the purpose of working capital.

(5) The board of directors passed the resolution on November 12, 2018, that the first tier subsidiary AMI shall lend funds to second tier subsidiaries MIBW and AMISA with the loan amount capped at US$5 million, for the purpose of working capital.

(6) The board of directors passed the resolution on January 21, 2019, based on the needs of businesses, that the first tier subsidiary AMI shall lend funds to second tier subsidiary MIBW with the loan amount capped at US$3 million.

III. Guarantees and endorsements:

(1) The Company and the bank have completed continuation of the annual contract on December 6, 2017, and has acquired US$18,000,000 account receivable credit limit. In accordance with "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" and the Company's "Regulations Governing Making of Endorsements/Guarantees," has followed-up and recognized the endorsements and guarantees of subsidiary AMI by the board of directors on February 26, 2018. The situation of the endorsements and guarantees will be announced publicly each month in accordance with the laws, and has established procedures for record keeping of related information and approvals.

(2) The Company has, on September 6, 2018 and September 20, 2018, completed the continuation contract with the banks, and has acquired US$3 million and US$18 million account receivable credit limit respectively. In accordance with "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" and the Company's "Regulations Governing Making of Endorsements/Guarantees," has followed-up and recognized the endorsements and guarantees of subsidiary AMI by the board of directors on November 12, 2018. The situation of the endorsements and guarantees will be announced publicly each month in accordance with the laws, and has established procedures for record keeping of related information and approvals.

7.6.3 Future R&D plan and expected R&D expenditures:

In response to yacht design oriented towards functionality, comfort, fashion, and environmental awareness trends, the Company continues to develop advance manufacturing technologies and products that meet the needs of the consumers. Technology wise, examples such as production technology improvements or finding new types of raw materials, can reduce damages during production processes. Product wise, developing medium size outbound cruising yachts and luxurious mega yachts of 120 feet and more, finds supporting suppliers to orient towards the internet of things application for research and development for the interior

equipment, in order to meet the industry trends and the needs of the consumers.

7.6.4 Effect of and response to major changes in policies and regulations relating to corporate finance and sales:

Authoritative institutions have in recent years amended the Company Act, Income Tax Act, Securities & Exchange Act, Labor Standards Act, and so on. The Company shall act in accordance with the laws. The Company has improved manufacturing processes to reduce waste and polluting substances to meet the requirements of domestic and overseas environmental legislations. It is in line with international environmental protection trends, and is committed to social responsibility. Tax wise, it has commissioned professional certified public accountants to make plans in response to tax risks in international trading and balance attribution. The above-mentioned changes in major domestic and international policies and laws have no major impacts to the finance and business of the Company.

7.6.5 Effects of and response to changes in technology and industry relating to corporate finance and sales:

The Company pays attention to related technology changes and technology developments to its industry, in full grasp of the industry pulsation and changes, and continues to invest in developing products that meet the needs of the customers. Until the date of publication of the annual report, there are no changes in the technology and industry that resulted in major impacts to the Company's finance and sales.

7.6.6 The impact of changes in corporate image on the Company's crisis management, and the response measures:

The Company has cultivated its self-owned brand for many years and has built up a good image as a reputable company of high-quality yachts to the consumers. In recent years and until the date of publication of the annual report, there are no changes to the Company's image that resulted in any crisis management.

7.6.7 Expected benefits and potential risks from mergers and acquisitions, and the response measures:

One of the current factory areas of the Company, No. 18, Tongli Rd., Xiaogang Dist., Kaohsiung City 812, Taiwan (R.O.C.), is rented and used by Chin Poon Industrial. This plant is old, and it will require renovation and expansion work in line with the Group's future production region plan. In consideration of taxes, the Company acquired share equity of Chin Poon Industrial in November and December of 2018 to obtain land use rights. Share ownership has increased from 10% to 100%, total acquisition price was about NT$281,155,000. After the completion of future expansion works, it is estimated that the planned production lines for the new products could increase 13 operations areas, and raise the Groups overall production lines arrangement flexibility. This will aid the Company in grasp of new growth momentums. The period for expansion works will be about one year. The Company will monitor the progress at all times to ensure the construction quality and completion schedule, avoiding delays in progress that will result in the increase of capital costs and its impacts to receiving orders in the future.

7.6.8 Expected benefits and potential risks from capacity expansion, and the response measures:

The Company's production bases in Taiwan have reached saturated production capacity. To avoid future situations when receiving orders are limited by the impacts of production capacity, and to improve production capacity arrangements flexibility, the Company has, in May 2018, rented land and buildings of about 25,785 square meters from Far East Steel Safe Manufacturing. This is for planning of large type molding development, production, and storage and so on. At the same time, in quarter four of 2018, acquired all share equity of original party, Chin Poon Industrial, to obtain land use rights. Will continue to re-model self-owned old buildings in 2019 and plan new production lines for new products. After re-modelling construction work is completed, the overall production capacity in the plants in Taiwan will

gradually increase from 12 boats in the previous year to 24 boats. Thus, it provides greatest performance for future revenue growth, new market expansion, and production line planning. Will cautiously raise the production capacity in observation of future market boom and supply demand changes.

7.6.9 Risks relating to purchases concentration and sales concentration, and the respons measures:

I. Purchase

The main import items of the Company are motor engines, electronics for boats, hardware and FRP materials. It has also maintained constant interactions with key suppliers for many years, and has built up a good collaborative relationship with mutual support and growth. Also, there is no long-term supply contract of more than a year being signed for the purchase of main raw material, more than two suppliers are maintained to ensure the stability and diversity for the supply of goods. Thus, there are no incidents that result from the impacts of supply goods shortage or interruption.

II. Sale

Individual customers wise, the Company's products are considered supreme and exquisite, high-value products. The annual sales volume is low, but the unit sales amount is extremely high. Thus, it is easy that sales will concentrate on a single customer, as this is normal and the nature of this industry.

Corporate client wise, in order to provide value-added professional services to the customer group at the top of the pyramid, and to raise the market share of the product to create a stable source of profit, the Company has collaborated with Marine Max, the largest listed yachting agent in the United States. The concentration of sales is the characteristics of this industry. At the same time, the Company also has its own sales team in the West Coast of United States and Australia. It is also an agent for other brands for medium and small yachts. At the same time, it has service and maintenance bases, and a complete and professional team, gradually increasing its revenue share, lowering the risks of sales concentrating on the agents.

7.6.10 Risks associated with sales of significant number of shares by the Company's directors and major shareholders who own 10% or more of the Company's total outstanding shares:

In recent years and until the publication date of the annual report, there are no occurrences of large share equity transfers or exchange for the Company's directors, supervisors or major shareholders with more than 10% of share ownership.

7.6.11 Risks associated with change in management: None.

7.6.12 Risks associated with litigations:

I. Final judgements or pending litigation, non-litigation or administrative proceedings in most recent years and as of the publication date of this annual report which may have a material impact on shareholders' rights or stock price:

(1) Litigation with David Parker and Big Bird Holding LLC (plaintiff)

Fact in contention	Date / Counterparties / Amount	Current status
The Company sold a yacht in 2005 through agent Orange Coast Marine Inc. to David Parker and Big Bird Holding LLC (Plaintiff). In 2009, Orange Coast Marine Inc. ended agent work and has agreed that the new agent Ocean Alexander Marine Yachts Sales Inc. (OAMYS) and Ocean Alexander Service LLC (OAS) will be responsible for the warranty thereafter. In 2011, the plaintiff requested OAMYS and OAS to pay for the maintenance fees and the manufacturer (the Company) to be responsible for the product warranty, stating the reasons for waters entering into the yacht and flaws in manufacturing. Disputes arise from both parties on the attribution of responsibility for the cause of the flaws and the maintenance fees.	In 2012, the plaintiff formally filed a lawsuit against the Company, OAMYS and OAS with the Federal judiciary of the United States. The United States District Court for the Central District of California made judgement in The First Instance on February 2, 2015. The judgement states that the accused including the Company should under joint and several liability, compensate the plaintiff compensation for damages with amount of US$1,549,551.6 and civil penalty at US$2,375,000. In addition, for the weighted portion on plaintiff lawyer expenses and interests, the accused has on June 25, 2015 filed an appeal to the United States Court of Appeals for the Ninth Circuit (9th Cir.), and in July 2017 the appeal was filed again.	Given consideration of the lawyers' opinions by the Law Office Of Lara M. Krieger in the United States of California and the Far East Law Offices, this case could be returned for retrial due to factors such as the product characteristics of the yacht and that the plaintiff has already obtained insurance claims and so on, this case has been returned for retrial; the Company asserts that the defects are due to collision of the yacht and not due to manufacturing. Furthermore, the plaintiff proceeded with maintenance work without the agreement of the original manufacturer, thus, has violated the warranty terms between both parties. Currently, a U.S. lawyer has been appointed to proceed with the appeal. The U.S. Court has made judgement in The First Instance that the actual possible amount required for compensation or proportion can still not be determined. The litigation has until now not yet formed any negative effects to the Company's orders and customers' willingness to purchase. It is assessed that it will not result in any impacts to the Company's finance and businesses. Besides this, OAMYS's de facto responsible person has issued a statement of commitment. Should this case require the responsibility for compensation at the end, OAMY will be liable for compensation.

(2) Litigation with Northern Insurance Company and Federal Insurance Company

Fact in contention	Date / Counterparties / Amount	Current status
The Company sold a yacht to James DeMess, the yacht owner, through agent Orange Coast Marine Inc. in 2007. In 2008, the yacht owner crashed into many other yachts while moving the yacht at the entrance of Port of Catalina. The yacht owner claims that the manufacturer (the Company) and the agent are responsible for the assembly, testing and services and so on of the sold yacht.	Northern Insurance is the insurance company of James DeMess, and has requested for a compensation of US$1,500,000 on behalf of him. The insurance company, Federal Insurance, of other yachts that were crashed into, has on behalf of its customers requested for compensation of US$300,000.	Given considerations to the lawyers' opinions of Rosenberg & Koffman in Los Angeles, California, United States, and Far East Law Offices, the yacht owner James DeMess of this case, crashed into other yachts as a result of improper use and maintenance of the yacht. The Company claims that it has not created any defects, and even if there are any defects in the construction, the responsibility lies with the manufacturer of the central control system, Koberlt Manufacturing Company. Both parties signed the reconciliation agreement on February 24, 2017. The major shareholder shall be responsible for losses payable for compensation. The insurance company has also withdrawn this lawsuit on April 7, 2017. The litigation outcomes do not have any impacts to the Company's finance and businesses, shareholder equity, or securities price.

(3) Litigation of MIBW and Vector Works Marine LLC

Fact in contention	Date / Counterparties / Amount	Current status
MIBW and Vector Works Marine LLC (VW) signed the Product Fabrication Agreement on January 22, 2015. However, VW is not able to fulfill delivery volume and quality and has not shown improvements after communications. Besides VW's reluctance to take responsibility for the poor quality and the delay in delivery that resulted in the delays in manufacturing by MIBW, which generated losses, VW even asked for extra payments for additional labor work and other indirect manufacturing expenses that were beyond the scope of the contract, and threatened to detain the MIBW yacht owned by customers, in order to force the payment of the construction as soon as possible.	MIBW predicted its economic losses amount to be US$8,000,000 and filed for compensation litigation with Brevard County Court of State of Florida against VW on June 16, 2017. Economic losses include overtime pay for production acceleration after that, excess engagement of other suppliers with maintenance and recovery, and costs incurred from changing defect items for VW, every boat wasted 500 invalid work hours, the financial discounts offered to customers due to the delay in yacht delivery, and advance project payment of US$172,843.77 listed in MIBW account.	This case will ensure customers' rights and maintain the goodwill of MIBW and OA brand value by filing for lawsuit against the supplier. And the production originally outsourced has been withdrawn to our own plants for manufacturing. Thus, it will not impact the Company's production process. The final judgement for this case was concluded in January 2019. The accounts were adjusted accordingly, and there were no major impacts to the Group's finance and businesses, and shareholder rights.

II. Final judgements or pending litigation, non-litigation or administrative proceedings involving the Company's directors, president, and shareholders who own more than 10% of this Company's shares in most recent years and as of the publication date of this annual report which may have a material impact on shareholders' rights or stock price: None.

7.6.13 Risk associated with information security

1. Information security policy:

The Company's information security policy mainly focuses on information security governance and legal compliance. Raising information security protection capability on the whole to ensure customers' information, and the Company's intellectual property creation is not infringed. The information technology (IT) department is responsible for expanding information security management, setting management goals, continuing to strengthen monitoring and control, and management of the mechanisms, including strengthening educational training, information security structure design, and assuring that all of the information processes meet the legal requirements of domestic and overseas information security laws.

2. Control of information security and internet risks

In order to avoid malicious internet attacks via electronic mail, internet fishing, and so on, the Company has built internet security strengthening processes, including filtering malicious emails, employee net surfing protection, antivirus software layout, monitoring and controlling removable storage device usage, to lower related information security and internet risks; at the same time, internal campaigns are executed to raise awareness of information security among colleagues to ensure information security concept is integrated into daily work. In consideration of information security as a type of emerging risk, which involves related supporting measures, such as information security level testing authority, claim investigation authority, and no claim conditions, therefore, the Company has not yet insured on information security. In future, the Company will continue to assess for suitable information security insurance.

7.6.14 Other material risk: None.

7.7 Other Important Disclosures: None.

VIII. Special Disclosure

8.1 Summary of Affiliates:

8.1.1 Basic information of affiliates:

Unit: NTD thousands/USD thousands/AUD thousands; March 31, 2019

Company Name	Major Business	Shareholding of the Company		
		Investment amount	Shares	Ownership
Alexander Marine International Co., Limited (HK)	General investing	1,101,436	10,000	100%
Rocs Marine Industry Corporation	Real estate leasing	302,103	674,310	100%
Alexander Marine USA Inc.	Yacht sales & repair and maintenance	USD 16,000	Non-shareholding system	100%
Merritt Island Boat Works, Inc	Yacht manufacturing & spare parts sales	USD 33,200	Non-shareholding system	100%
Alexander Marine Enterprises Inc.	General investing	USD 4,804	10,000	100%
Alelxander Marine Australia Pty Ltd.	Yacht sales & repair and maintenance	AUD 350	Non-shareholding system	100%
Pacific Coast Yachting Services, Inc.	After-sales service	USD 1,800	100,000	100%
East Coast Yacht Group Inc.	After-sales service	USD 200	Non-shareholding system	100%
Alexander Marine California Inc.	Yacht sales	Note	Non-shareholding system	100%

Note: Alexander Marine California of the Group refers to overseas holding company Alexander Marine USA Inc. holding, and in accordance with local laws, the main financial statement is based on the consolidated financial statement. Thus, only disclosure of overseas holding company, Alexander Marine USA Inc.

8.1.2 Operational highlights of affiliates:

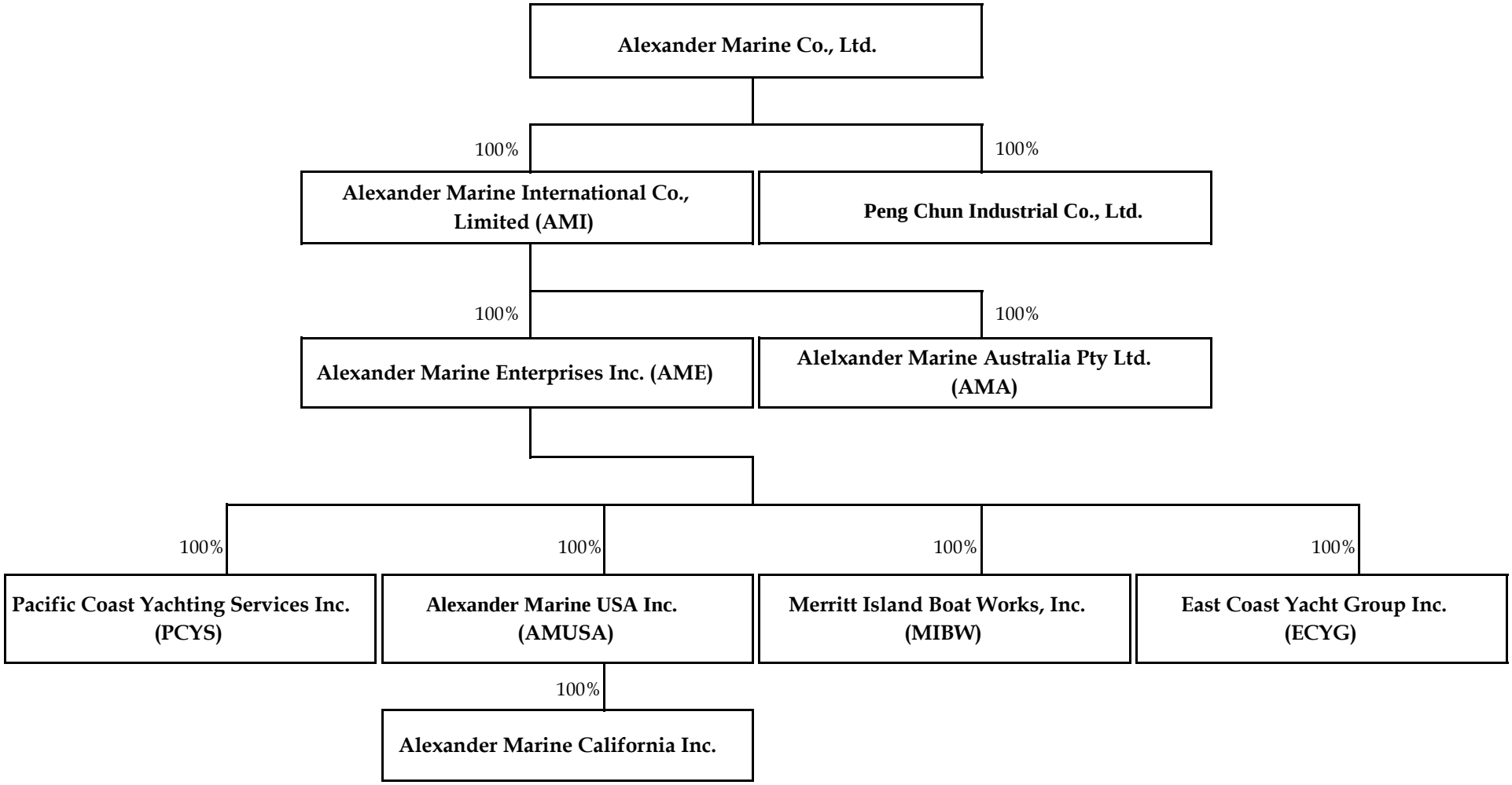
I. Financial situations and operations outcome of various affiliated companies.

Unit: In NTD thousand, USD thousand, AUD thousand

Name of affiliated enterprises	2018		2019Q1	
	Current period profit / loss of the investee	Recognized investment Income	Current period profit / loss of the investee	Recognized investment Income
Alexander Marine International Co., Limited (HK)	172,916	172,916	(232,485)	(232,485)
Rocs Marine Industry Corporation	1,381	(3,375)	1,762	1,762
Alexander Marine USA Inc.	USD (949)	USD (949)	USD (383)	USD (383)
Merritt Island Boat Works, Inc	USD (6,776)	USD (6,776)	USD (4,207)	USD (4,207)
Alexander Marine Enterprises Inc.	USD 1,059	USD 1,059	USD (3,552)	USD (3,552)
Alelxander Marine Australia Pty Ltd.	AUD (3,408)	AUD (3,408)	AUD (119)	AUD (119)
Pacific Coast Yachting Services, Inc.	USD 737	USD 737	USD 164	USD 164
East Coast Yacht Group Inc.	USD (46)	USD (46)	USD 46	USD 46
Alexander Marine California Inc.	Note	Note	Note	Note

Note: Alexander Marine California of the Group refers to overseas holding company Alexander Marine USA Inc. holding, and in accordance with local laws, the main financial statement is based on the consolidated financial statement. Thus, only disclosure of overseas holding company, Alexander Marine USA Inc.

II. Chart and shareholding of affiliates



III. Consolidated financial statements of affiliated enterprises

The companies to be included by the Company in the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of affiliates in accordance with the "Rules Governing the Preparation of Affiliated Company's Consolidated Business Report, Affiliated Company's Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and Relationship Report" in 2018 (from January 1 to December 31, 2018) are identical to those to be included in the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of the Parent Company and subsidiaries in accordance with the International Financial Reporting Standards No. 27. Also, the information to be disclosed in the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of the affiliated companies has been disclosed in said Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of the Parent Company and subsidiaries. Therefore, the Company will not separately prepare the Sale or Contribution of Assets between an Investor and its Associate or Joint Venture of the affiliated companies.

IV. Affiliation reports: Not applicable

8.2 Private Placement Securities in the Most Recent Years: None.

8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years: None.

8.4 Supplementary Disclosures: None.

IX. Any Events that Had Significant Impact on Shareholders' Equity or Security Price as Prescribed by Subparagraph 2, Paragraph 3, Article 36 of Securities and Exchange Act during the Most Recent Years and up to the Date of this Annual Report Printed: None.

Appendix 1

ALEXANDER MARINE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

WITH REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED

DECEMBER 31, 2018 AND 2017

Address: No. 1, Jinfu Rd., Qianzhen Dist., Kaohsiung City 806, Taiwan R.O.C.

Telephone: 886-7-831-412

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

Independent Auditors' Report

To ALEXANDER MARINE CO., LTD.

Opinion

We have audited the accompanying consolidated balance sheets of ALEXANDER MARINE CO., LTD. and its subsidiaries (the "Group") as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and their consolidated financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by 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 (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2018 consolidated financial statements. 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.

1. Revenue Recognition
   Net sales recognized by the Group amounted to NT$3,959,487 thousand for the year ended December 31, 2018. Sales is recognized when the product is delivered to the customer and the ownership is transferred to the customer. As the timing of revenues recognition has to be further confirmed, therefore, we considered this a key audit matter. Our audit procedures included (but are not limited to) assessing the appropriateness of the accounting policy of revenue recognition; evaluating and testing the design and operating effectiveness of internal control around the timing of revenue recognition; selecting samples to perform tests of details and reviewing the significant terms and conditions of contracts or orders and inspecting the related transaction vouchers and receipts. We also assessed the adequacy of disclosures of operating revenues. Please refer to Note 6. (16) to consolidated financial statements.

2. Valuation for Inventories
   As December 31, 2018, the Group net inventories amounted to NT$2,806,557 thousand, which is significant for the financial statements. As the industry is characterized by the specification and interior decors of individual yachts, the assessment of the net realizable value is based on the estimated price of individual inventory. In addition, considering identification of obsolete inventory and the assessment of the amount of inventory write-downs require significant management judgment, we determined this a key audit matter.

   Our audit procedures included (but are not limited to) assessing the appropriateness of accounting policies for inventory aging and obsolescence inventory; assessing the methods and assumptions used by the management; testing key assumptions for valuation of inventory, including accuracy of the calculation of net realizable value; and assessing the management's inventory plan and selecting the important stock location for inventory observation to confirm the quantity and status of the inventory.

   We also assessed the adequacy of disclosures of inventories. Please refer to Notes 5 and 6. (3) to the consolidated financial statements.

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 requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of t 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 ability to continue as a going concern of the Group, 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 audit committee or supervisors, are responsible for overseeing the financial reporting process of the Group.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group.

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 ability to continue as a going concern of the Group. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2018 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's 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.

Other

We have audited and expressed an unqualified opinion including the Other Matter paragraph on the parent company only financial statements of ALEXANDER MARINE CO., LTD. as of and for the years ended December 31, 2018 and 2017.

Chen, Cheng-Chu

Lee, Fang-Wen

Ernst & Young, Taiwan
18 March, 2019

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations 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 accepted and applied in the Republic of China.

Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Notes	31 December 2018		31 December 2017	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	IV/VI.1	$770,012	13	$322,735	7
Accounts receivable, net	IV/VI.2	615,823	10	587,553	13
Other receivables		16,885	-	8,362	-
Inventories, net	IV/VI.3	2,806,557	48	2,413,731	54
Prepayments		182,630	3	160,528	4
Other financial assets, current	IV/VIII	85,650	2	41,466	1
Other current assets		8,723	-	2,105	-
Total current assets		4,486,280	76	3,536,480	79
Noncurrent assets					
Investments accounted for under the equity method	IV/VI.4	-	-	21,847	-
Property, plant and equipment	IV/VI.5/VIII	1,112,213	19	706,833	16
Intangible assets	IV/VI.6	60,052	1	8,785	-
Deferred tax assets	IV/VI.22	152,022	3	156,845	3
Other financial assets, noncurrent	IV/VIII	30,715	-	29,760	1
Other noncurrent assets	VI.7	50,769	1	34,024	1
Total noncurrent assets		1,405,771	24	958,094	21
Total assets		$5,892,051	100	$4,494,574	100

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31 December 2018		31 December 2017	
		Amount	%	Amount	%
Current liabilities					
Short-term loans	IV/VI.9	$784,357	13	$1,053,308	24
Short-term notes and bills payable	IV/VI.10	319,649	5	59,674	1
Contract liabilities, current	IV/VI.16	142,155	2	-	-
Notes payable		26,829	1	7,351	-
Accounts payable		224,064	4	138,150	3
Other payables		134,780	2	148,341	3
Other payables to related parties	VII	30,905	1	130,944	3
Current tax liabilities	IV	642	-	50,830	1
Provision, current	IV/VI.13	23,090	-	21,753	1
Unearned receipts		-	-	87,748	2
Other current liabilities		4,040	-	3,504	-
Total current liabilities		1,690,511	28	1,701,603	38
Noncurrent liabilities					
Long-term loans	IV/VI.11	1,330,216	23	-	-
Deferred tax liabilities	IV/VI.22	53,393	1	8,411	-
Net defined benefit liabilities, noncurrent	IV/VI.12	15,603	-	11,530	-
Total noncurrent liabilities		1,399,212	24	19,941	-
Total liabilities		3,089,723	52	1,721,544	38
Equity attributable to owners of the parent	VI.14.15				
Common stock		930,623	16	945,673	21
Capital surplus		1,041,318	18	1,053,254	23
Retained earnings					
Legal reserve		122,052	2	94,652	2
Special reserve		47,978	1	13,947	1
Unappropriated earnings		733,596	12	713,482	16
Total Retained earnings		903,626	15	822,081	19
Other equity		(18,152)	-	(47,978)	(1)
Treasury stock		(55,087)	(1)	-	-
Total equity		2,802,328	48	2,773,030	62
Total liabilities and equity		$5,892,051	100	$4,494,574	100

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share Information)

ITEMS	NOTE	2018		2017	
		Amount	%	Amount	%
Net operating revenue	IV/VI.16	$3,959,487	100	$3,622,993	100
Operating costs	IV/VI.3.18.19	(2,855,869)	(72)	(2,516,193)	(69)
Gross profit		1,103,618	28	1,106,800	31
Operating expenses	VI.12.17.18.19				
Selling expenses		(496,657)	(13)	(436,667)	(12)
General and administrative expenses		(340,266)	(9)	(294,834)	(8)
Total operating expenses		(836,923)	(22)	(731,501)	(20)
Operating income		266,695	6	375,299	11
Non-Operating income and expenses	IV/VI.4.20				
Other income		91,194	2	66,058	2
Other gains and losses		67,768	2	(79,951)	(2)
Finance cost		(34,850)	(1)	(21,342)	(1)
Share of profit of associates and joint ventures accounted for using equity method		504	-	410	-
Total non-operating income and expenses		124,616	3	(34,825)	(1)
Income before income tax		391,311	9	340,474	10
Income tax expense	IV/VI.22	(32,528)	(1)	(66,476)	(2)
Net income		358,783	8	273,998	8
Other comprehensive income	IV/VI.21				
Items that will not to be reclassified subsequently to profit or loss					
Remeasurements of the defined benefit pension plan		(3,657)	-	3,646	-
Income tax related to items that will not be reclassified		731	-	(619)	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foregin opreations		35,513	1	(43,340)	(1)
Income tax related to items that may be reclassified subsequently		-	-	380	-
Other comprehensive income, net of income tax		32,587	1	(39,933)	(1)
Total comprehensive income		$391,370	9	234,065	7
Net income for the periods attributable to :					
Shareholders of the parent		$358,755	9	$273,998	7
Noncontrolling interests		28	-	-	-
		$358,783	9	$273,998	7
Total comprehensive income for the periods attributable to :					
Shareholders of the parent		$391,342	10	$234,065	6
Noncontrolling interests		28	-	-	-
		$391,370	10	$234,065	6
Earning per share					
Basic Earning Per Share (in NT dollars):	VI.23	$3.85		$3.24	
Diluted Earnings Per Share (in NT dollars):		$3.82		$3.23	

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

ITEMS	Equity attributable to shareholders of the parent										
			Retained Earnings			Other equity					
	Common Stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences resulting on translation of foreign operations	Employee unearned reward	Treasury Stock	Equity attributable to shareholders of the parent	Noncontrolling interests	Total equity
Balance as of 1 January 2017	$666,709	$328,309	$40,435	$5,593	$715,708	$1,854	$(15,801)	$-	$1,742,807	$-	$1,742,807
Appropriations and distributions of 2016 retained earnings:											
Legal reserve	-	-	54,217	-	(54,217)	-	-	-	-	-	-
Special reserve	-	-	-	8,354	(8,354)	-	-	-	-	-	-
Cash dividend	-	-	-	-	(43,336)	-	-	-	(43,336)	-	(43,336)
Stock dividend	173,344	-	-	-	(173,344)	-	-	-	-	-	-
Net income for the year ended 31 December 2017	-	-	-	-	273,998	-	-	-	273,998	-	273,998
Other comprehensive income (loss) for the year ended 31 December 2017	-	-	-	-	3,027	(42,960)	-	-	(39,933)	-	(39,933)
Total comprehensive income	-	-	-	-	277,025	(42,960)	-	-	234,065	-	234,065
Capital increased by cash	105,500	718,435	-	-	-	-	-	-	823,935	-	823,935
Share-based payment	-	5,248	-	-	-	-	-	-	5,248	-	5,248
Restricted stocks for employee	120	1,262	-	-	-	-	8,929	-	10,311	-	10,311
Balance as of 31 December 2017	$945,673	$1,053,254	$94,652	$13,947	$713,482	$(41,106)	$(6,872)	$-	$2,773,030	$-	$2,773,030
Balance as of 1 January 2018	$945,673	$1,053,254	$94,652	$13,947	$713,482	$(41,106)	$(6,872)	$-	$2,773,030	$-	$2,773,030
Appropriations and distributions of 2017 retained earnings:											
Legal reserve	-	-	27,400	-	(27,400)	-	-	-	-	-	-
Special reserve	-	-	-	34,031	(34,031)	-	-	-	-	-	-
Cash dividend	-	-	-	-	(191,972)	-	-	-	(191,972)	-	(191,972)
Net income for the year ended 31 December 2018	-	-	-	-	358,755	-	-	-	358,755	28	358,783
Other comprehensive income (loss) for the year ended 31 December 2018	-	-	-	-	(2,926)	35,513	-	-	32,587	-	32,587
Total comprehensive income	-	-	-	-	355,829	35,513	-	-	391,342	28	391,370
Purchase of treasury stock	-	-	-	-	-	-	-	(180,337)	(180,337)	-	(180,337)
Treasury stock cancelled	(19,920)	(23,018)	-	-	(82,312)	-	-	125,250	-	-	-
Restricted stocks for employee	4,870	11,082	-	-	-	-	(5,687)	-	10,265	-	10,265
Noncontrolling interests	-	-	-	-	-	-	-	-	-	(28)	(28)
Balance as of 31 December 2018	$930,623	$1,041,318	$122,052	$47,978	$733,596	$(5,593)	$(12,559)	$(55,087)	$2,802,328	$-	$2,802,328

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

Item	2018 Amount	2017 Amount	Item	2018 Amount	2017 Amount
Cash flows from operating activities:			**Cash flows from investing activities**		
Net income before tax	$391,311	$340,474	Acquisition of subsidiaries (net of cash acquired)	(272,772)	-
Adjustments to reconcile net income before tax to net cash provided by operating activities:			Equity method investee capital deducted by fund returned	-	1,516
Depreciation	52,262	44,638	Acquisition of property, plant and equipment	(82,146)	(22,342)
Amortization	7,434	1,458	Proceeds from disposal of property, plant and equipment	868	110
Interest expense	34,850	21,342	Acquisition of intangible assets	(3,346)	(5,615)
Interest revenue	(1,596)	(664)	Increase in other financial assets	(44,184)	-
Share-based payment expenses	10,265	15,559	Decrease in other financial assets	-	19,319
Share of (profit) of associates and joint ventures accounted for using equity method	(504)	(410)	Other investment activities	(52,389)	-
Loss (Gain) on disposal of property, plant and equipment	(160)	(18)	Net cash (used in) investing activities	(453,969)	(7,012)
Loss (Gain) on disposal of investments accounted for under the equity method	(7,834)	-			
Bargain purchase gain	(8,563)	-			
Changes in operating assets and liabilities:					
(Increase) decrease in accounts receivable	(28,270)	(571,637)	**Cash flows from financing activities:**		
(Increase) decrease in other receivable	(8,523)	7,818	Increase in short-term loans	3,571,661	2,625,539
(Increase) decrease in other receivable from related parties	-	38,455	Decrease in short-term loans	(3,840,612)	(2,525,215)
(Increase) decrease in inventories, net	(392,826)	(422,069)	Increase in short-term notes and bills payable	258,408	59,611
(Increase) decrease in prepayments	(22,102)	(17,504)	Proceeds from long-term loans	1,341,000	-
(Increase) decrease in other current assets	(6,182)	3,794	Cash dividends	(191,972)	(43,336)
(Increase) decrease in other business assets	(37,104)	(37,897)	Capital increased by cash	-	823,935
(Increase) decrease in contract liabilities	54,407	-	Treasury stock acquired	(180,337)	-
Increase (decrease) in notes payable	19,478	2,010	Interest paid	(44,117)	(20,831)
Increase (decrease) in accounts payable	85,914	9,872	Net cash provided by financing activities	914,031	919,703
Increase (decrease) in other payables	(13,569)	16,138			
Increase (decrease) in other payables to related parties	(100,039)	(172,206)			
Increase (decrease) in provision	1,076	10,964	Effect of exchange rate changes on cash and cash equivalents	24,196	(18,388)
Increase (decrease) in unearned receipts	-	(422,787)			
Increase (decrease) in other current liabilities	536	(1,607)			
Increase (decrease) in net defined benefit liabilities, noncurrent	416	(2,515)			
Increase (decrease) in other operating liabilities	-	(170)	Net increase (decrease) in cash and cash equivalents	447,277	(274,448)
Cash generated from operating activities	30,677	(1,136,962)	Cash and cash equivalents at beginning of year	322,735	597,183
Interest received	1,596	664	Cash and cash equivalents at end of year	$770,012	$322,735
Income tax paid	(69,254)	(32,453)			
Net cash provided by (used in) operating activities	(36,981)	(1,168,751)			

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Stated)

I. ORGANIZATION AND OPERATION

1. ALEXANDER MARINE CO., LTD. (the "Company") was incorporated as a company limited by shares in Taiwan on 23 January 1978. The Company's major operating plant was located at No. 1, Jin-fu Road, Qian Zhen District, Kaohsiung, R.O.C. The Company's principal activities are the manufacture and sale of yachts.
2. The shares of the Company were listed on the Taiwan Stock Exchange on 11 December 2017.

II. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The consolidated financial statements of the Company and subsidiaries (hereinafter referred to as"the Group") for 2018 and 2017 were authorized for issue in accordance with the resolution of the board of directors on 18 March 2019.

III. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

1. Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2018. Apart from the nature and the impact of the new standard and amendment which are described below, all other standards and interpretations of initial application have no material effect on the Group:

(1) IFRS 15"Revenue from Contracts with Customers" (including Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. In accordance with the transition provision in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (1 January 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group's principal activities consist of the sale of goods. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

A. Please refer to Note 4 for the accounting policies before or after 1 January 2018.

B. Before 1 January 2018, revenue from sale of goods was recognized when goods have been delivered to the buyer. Starting from 1 January 2018, in accordance with IFRS 15, the Group recognized revenue when (or as) the Group satisfies a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Group's revenue recognition from sale of goods. However, for some contracts, part of the consideration was received from customers upon signing the contract, then the Group has the obligation to provide the goods. Before 1 January 2018, the Group recognized the consideration received in advance from customers under other current liabilities. Starting from 1 January 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from other current liabilities to contracts liabilities of the Group as at the date of initial application was NT$87,748. In addition, compared with the requirements of IAS 18, other current liabilities decreased by NT$142,155 and the contract liabilities increased by NT$142,155 as at 31 December 2018.

C. Please refer to Note 4 and Note 6 for additional disclosure note required by IFRS 15.

(2) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transition provision in IFRS 9, the Group elected not to restate prior periods at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Group:

A. The Group adopted IFRS 9 since 1 January 2018 and it adopted IAS 39 before 1 January 2018. Please refer to Note 4 for more details on accounting policies.

B. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at 1 January 2018. The classifications of financial assets and its carrying amounts as at 1 January 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
At amortized cost		At amortized cost (including cash and cash equivalents (excludes cash on hand), notes receivables, trade receivables and other receivables)	
Loans and receivables (including cash and cash equivalents (excludes cash on hand), notes receivables, trade receivables and other receivables)	$918,214		$918,214

C. The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets and financial liabilities as at 1 January 2018 are as follow:

IAS 39		IFRS 9				
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Retained earnings Adjustment	Other components of equity Adjustment
Loans and receivable (Note)						
Cash and cash equivalents (excludes cash on hand)	$322,299	Cash and cash equivalents (excludes cash on hand)	$322,299	$-	$-	$-
Account receivables	587,553	Account receivables	587,553	-	-	-
Other receivables	8,362	Other receivables	8,362	-	-	-
Total	$918,214	Total	$918,214		$-	$-

Note:
In accordance with IAS 39, the cash flow characteristics for loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at 1 January 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arising from the assessment of impairment losses for the aforementioned assets as at 1 January 2018. Therefore, there is no impact on the carrying amount as at 1 January 2018

D. Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures required by IFRS 7 and IFRS 9.

(3) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Group originally recorded their foreign currency sales transactions based on the exchange rate on the date of revenue recognition and converted into its functional currency. The exchange difference was recognized when the foreign currency advance payment was written off. The Group elected to apply this interpretation prospectively on 1 January 2018. This change in accounting principle did not significantly impact the Group's recognition and measurement.

2. Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are recognized by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 16 "Leases"	1 January 2019
B	IFRIC 23 "Uncertainty Over Income Tax Treatments"	1 January 2019
C	IAS 28 "Investment in Associates and Joint Ventures" — Amendments to IAS 28	1 January 2019
D	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
E	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
F	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

A. IFRS 16"Leases"

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors' classification remains unchanged as operating or finance leases, but additional disclosure information is required.

B. IFRIC 23 "Uncertainty Over Income Tax Treatments"

The interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

C. IAS 28"Investment in Associates and Joint Ventures" — Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

E. Improvements to International Financial Reporting Standards (2015-2017 cycle):

IFRS 3 "Business Combinations"

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 "Joint Arrangements"

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 "Income Taxes"

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 "Borrowing Costs"

The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

F. Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from item A explained below, the remaining standards and interpretations have no material impact on the Group.

IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The impact arising from the adoption of IFRS 16 on the Group are summarized as follows:

A. For the definition of a lease, the Group elects not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Leases classified as operating leases

For leases that were classified as operating leases applying IAS 17, the Group expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019 and; The Group chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before 1 January 2019.

The Group expects the right-of-use asset will increase by NT$425,678 thousand and the lease liability will increase by NT$425,678 thousand on 1 January 2019.

B. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

3. Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
B	IFRS 17 "Insurance Contracts"	1 January 2021
C	Definition of a Business (Amendments to IFRS 3)	1 January 2020
D	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020

A. IFRS 10"Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

B. IFRS 17 "Insurance Contracts"

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(1) estimates of future cash flows;
(2) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
(3) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

C. Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. Definition of a Material (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The abovementioned standards and interpretations have no material impact on the Group.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of Compliance

The Group's consolidated financial statements were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers ("Regulations"), IFRSs, IASs, IFRIC and SIC, which are endorsed by FSC (TIFRSs).

2. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value.

3. Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

(1) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
(2) exposure, or rights, to variable returns from its involvement with the investee and
(3) the ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(1) the contractual arrangement with the other vote holders of the investee

(2) rights arising from other contractual arrangement

(3) the Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If loses control of a subsidiary, it:

a. derecognizes the assets (including goodwill) and liabilities of the subsidiary
b. derecognizes the carrying amount of any non-controlling interest
c. recognizes the fair value of the consideration received
d. recognizes the fair value of any investment retained
e. recognizes any surplus or deficit in profit or loss
f. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are as follows:

Invest Company	Investee Company	Major business	Percentage of Ownership (%) 31 Dec. 2018	Percentage of Ownership (%) 31 Dec. 2017
The Company	Alexander Marine International Co., Limited(AMI)	Sale of the yachts	100% (NOTE 1)	100%
The Company	Rocs Marine Industry Corporation.	Property lease	100% (NOTE 2)	9.64%
AMI	Alexander Marine USA Inc. (AMUSA)	Sale of the yachts	(NOTE 3/ NOTE 9)	100%
AMUSA	Alexander Marine Washington LLC.(Alexander Marine Washington)	Sale of the yachts	(NOTE 4)	(NOTE 4)
AMUSA	Alexander Marine California Inc. (Alexander Marine California)	Sale of the yachts	100%	100%
(NOTE 5)	Ocean Alexander Co., Ltd.	Sale of the yachts	(NOTE 5)	(NOTE 5)
AMI	Merritt Island Boat Works, Inc. (MIBW)	Manufacturing , sale and maintenance of yachts	(NOTE 6/ NOTE 9)	100%
AMI	Alexander Marine Enterprises Inc. (AME)	Investment holding	100% (NOTE 7)	-
AMI	Alexander Marine Australia Pty Ltd. (AMA)	Sale of the yachts and parts service	100% (NOTE 8)	-
AME	Merritt Island Boat Works, Inc.(MIBW)	Manufacturing , sale and maintenance of yachts	100% (NOTE 9)	-
AME	Alexander Marine USA (AMUSA)	Sale of the yachts	100% (NOTE 9)	-
AME	Pacific Coast Yachting Services Inc. (PCYS)	Service and maintenance of yachts	100% (NOTE 10)	-
AME	East Coast Yacht Group Inc. (ECYG)	Service and maintenance of yachts	100% (NOTE 11)	-

(NOTE 1) The Company increased the capital of AMI from April 2018 to May 2018 in the amount of USD$6,000 thousand, and invested USD$28,332 thousand in AMI recognized as other receivables, reaching 100% ownership.

(NOTE 2) The Company purchased the common shares of Rocs Marine Industry Corporation in cash. In the first stage, the ownership was increased from 10% to 90%, and the second stage was from 90% to 100%. In November 2018, the Group obtained control and included Rocs Marine Industry Corporation in the Group's consolidated financial statements.

(NOTE 3) AMI increased the capital of AMUSA from March 2018 to November 2018 in the amount of USD$8,500 thousand, to 100% ownership.

(NOTE 4) Alexander Marine Washington LLC was dissolved on 17 April 2017.

(NOTE 5) Ocean Alexander Co., Ltd was invested by the Company's major shareholders in earlier years, rather than direct or indirect investment of the Group. After reviewing the transactions and the relationship between these companies while referencing the recent requirements made by the competent authorities, the Group incorporated these companies into the consolidated entities. Ocean Alexander Co., Ltd. is still in the process of dissolution as of December 31, 2018.

(NOTE 6) AMI increased the capital of MIBW from April 2018 to November 2018 in the amount of USD$12,800 thousand, reaching 100% ownership.

(NOTE 7) AMI invested 100% in AME in January 2018 in the amount of USD$2,000 thousand.

(NOTE 8) AMI invested 100% in AMA in June 2018 in the amount of AUD$200 thousand.

(NOTE 9) The Group was reorganized in December 2018. The original 100% equity that AMI held was all transferred to AME based on the book value. AME invested 100% in AMUSA and MIBW in December 2018 in the amount of USD$500 thousand and USD$120 thousand, respectively.

(NOTE 10) AME invested 100% in PCYS in February 2018 in the amount of USD$2,000 thousand.

(NOTE 11) AME invested 100% in ECYG in November 2018 in the amount of USD$200 thousand.

4. Foreign currency transactions

The Group's consolidated financial statements are presented in NT$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

(1) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(2) Foreign currency items within the scope of IFRS 9 Financial Instruments (Before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) are accounted for based on the accounting policy for financial instruments.

(3) Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

5. Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or

joint control but retain partial equity is considered as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

6. Current and noncurrent distinction

An asset is classified as current when:
(1) The Group expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
(2) The Group holds the asset primarily for the purpose of trading
(3) The Group expects to realize the asset within twelve months after the reporting period; or
(4) the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent.
A liability is classified as current when:
(1) The Group expects to settle the liability in its normal operating cycle.
(2) The Group holds the liability primarily for the purpose of trading.
(3) The liability is due to be settled within twelve months after the reporting period.
(4) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as noncurrent.

7. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 3 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8.Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments (Before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(1) Financial instruments: Recognition and Measurement

The accounting policy from 1 January 2018 as follow:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

A. the Group's business model for managing the financial assets and
B. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

A. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
B. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

A. purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

B. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

The accounting policy before 1 January 2018 as follow:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Group are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Group determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

(2) Impairment of financial assets

The accounting policy from 1 January 2018 as follow:

The Group recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Group measures expected credit losses of a financial instrument in a way that reflects:

A. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

B. the time value of money; and

C. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.

B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.

C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policy before 1 January 2018 as follow:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

Other loss events include:

A. significant financial difficulty of the issuer or obligor

B. a breach of contract, such as a default or delinquency in interest or principal payments

C. it becoming probable that the borrower will enter bankruptcy or other financial reorganization

D. the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

(3) Derecognition of financial liabilities

A financial liability is derecognized when:

A. The rights to receive cash flows from the asset have expired
B. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
C. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(4) Financial liabilities and equity

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments (before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(5) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

9. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(1) In the principal market for the asset or liability, or
(2) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

10. Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:
Raw materials – Purchase cost on a first in, first out basis
Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from 1 January 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

11. Investments accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro-rata basis.

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures (before 1 January 2018: IAS 39 *Financial Instruments: Recognition and Measurement*). If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

(1) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
(2) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets.*

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, 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 entity continues to apply the equity method and does not remeasure the retained interest.

12.Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	5～50 years
Machinery and equipment	3～10 years
Transportation equipment	5 years
Office equipment	3～10 years
Miscellaneous equipment	3～15 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

13. Leases

The group as a lessee

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

The group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

14. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

The Group's intangible assets accounting policies are as follows:

	Software	Customer relations
Useful life	Limited useful life of 5 years	Limited useful life of 5 years
Amortization methods	Straight-line method	Straight-line method
Internally generated or outside acquisition	Outside Acquisition	Outside Acquisition

15. Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

16.Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

The liability is recognized progressively if the obligating event occurs over a period of time.

Maintenance warranties

A provision is recognized for expected warranty claims on products sold, based on past experience, management's judgement and other known factors.

17.Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

18.Revenue recognition

The accounting policy from 1 January 2018 as follow:

The Group's revenue arising from contracts with customers are primarily related to sale of goods. The accounting policies are explained as follow:

Sale of goods

The Group manufactures and sells yachts. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group is high-end yachts and revenue is recognized based on the consideration stated in the contract.

The Group provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

The credit period of the Group's sale of goods is from 31 to 90 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

For some of the contracts, the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the goods; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component aroise.

The accounting policy before 1 January 2018 as follow:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sales of yachts

The buyers of the Group's yacht sales agreements can only influence the design of the yachts in a limited capacity, or can specify only minor changes to the basic design. In accordance with IFRIC 15, the Group's yachts sales agreements are within the scope of IAS 18 "Revenue"

Revenue from sales of yachts is recognized when the Group has transferred to the buyer the significant risks and rewards and the ownership of the goods, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable.

Deposits received on yachts sold prior to the date of revenue recognition are included in the consolidated balance sheet as advanced proceeds received from customers under current liabilities.

Sales of goods

Revenue from sale of goods is recognized when all the following conditions have been satisfied: the significant risks and rewards of ownership of the goods have transferred to the buyer; neither continuing managerial involvement nor effective control over the goods sold have been retained; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

For financial assets measured at amortized cost (include held-to-maturity financial assets) and financial assets at fair value through profit or loss, interest income is recorded using the effective interest rate and recognized in profit or loss.

19.Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

20.Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account which is not associated with the Company and its domestic subsidiaries; therefore fund assets are not included in the Group's consolidated financial statements. Pension plan of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

(1) the date of the plan amendment or curtailment, and
(2) the date that the Group recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

21.Share-based payment transactions

The cost of equity-settled transactions between the Group and its subsidiaries is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Group recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

The grant date of the Group share-based payment is on the date, when both the Group and its employees reaches a consensus of the subscription price and amount of shares to be acquired.

22.Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

<u>Current income tax</u>

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(1)Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

(2)In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(1)Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

(2)In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

23.Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 Financial Instruments (before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

V. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources for estimating uncertainty at the reporting date that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Pension

The cost of post-employment benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. The assumptions used for measuring pension cost and the present value of the pension obligation are disclosed in Note 6.

(2) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6.

(3) Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgment and estimate to determine the net realizable value of inventory at the end of each reporting period. The inventory evaluation is mainly based on historical experience such as inventory characteristics and referred to market prices as the basis for estimation, please refer to Note 6.

(4) Income Tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies. Please refer to Note 6 for more details on the Group unrecognized deferred tax assets as of 31 December 2018.

(5) Accounts receivables–estimation of impairment loss

Starting from 1 January 2018:

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

Before1 January 2018:

The Group considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

VI. CONTENTS OF SIGNIFICANT ACCOUNTS

1. Cash and cash equivalents

	31 Dec. 2018	31 Dec. 2017
Cash on hand	$426	$436
Saving account	769,586	322,299
Total	$770,012	$322,735

2. Accounts receivable, net

	31 Dec. 2018	31 Dec. 2017
Account receivable	$615,823	$587,553
Less: loss allowance	-	-
Total	$615,823	$587,553

Accounts receivable were not pledged.

Trade receivables are generally on 31-90 day terms. The Group adopted IFRS 9 for impairment assessment since 1 January 2018. Please refer to Note 6 for more details on impairment of trade receivables. The Group adopted IAS 39 for impairment assessment before 1 January 2018. The movements in the provision for impairment of trade receivables for the year ended 31 December 2017 are as follows: (Please refer to Note 12 for more details on credit risk management.)

	Individually impaired loss	Collectively impaired	Total
1 Jan. 2017	$-	$-	$-
Charge (reverse) for the year	-	-	-
Write-off for uncollectable accounts	-	-	-
Exchange differences	-	-	-
31 Dec. 2017	$-	$-	$-

The past due account aging analysis of net account receivables is as follows:

		Past due but not impaired				
As of	Neither past due nor impaired	1-31 days	31-60 days	61~90 days	Over 91 days	Total
31 Dec. 2017	$587,530	$3	$-	$-	$20	$587,553

3. Inventories, net

	31 Dec. 2018	31 Dec. 2017
Raw materials	$284,183	$213,691
Work in process	1,210,506	963,288
Finished goods	573,950	535,717
Materials in transit	21,328	29,273
Merchandise	716,590	671,762
Net	$2,806,557	$2,413,731

The cost of inventories recognized in expenses amounted to NT$2,855,869 thousand and NT$2,516,193 thousand for the years ended 31 December 2018 and 2017, respectively, including the inventory valuation loss and obsolescence loss in the amount of NT$3,581 thousand and NT$18,787 thousand, respectively.

Inventories were not pledged.

4. Investments accounted for under the equity method

Details are as follows:

Investee Company	31 Dec. 2018		31 Dec. 2017	
	Amount	Percentage of ownership	Amount	Percentage of ownership
ROCS MARINE INDUSTRY CORPORATION. (ROCS MARINE)	$-	-	$21,847	**10%**

(1) The Group invested in ROCS MARINE, and acquired 10% ownership interest. The Group accounts for its investment in ROCS MARINE as an associate given the fact that the Group is able to exercise significant control over ROCS MARINE through representation on its board of directors. As a result, the investment was an investment in an associate accounted for under the equity method.

(1) ROCS MARINE capital reduction by returning fund was approved at the shareholders' meeting on 23 June 2017, and received the returned fund in August 2017.

(3) The Group's investments in said associates are not individually material. The related share of investment from the associates amounted to NT$21,847 thousand for the years ended 31 December 2017. The aggregate financial information of the Group's investments in associates is as follows:

	2017
Profit or loss from continuing operations	$410
Other comprehensive income (post-tax)	-
Total comprehensive income	$410

(4) The Group acquired the common shares of ROCS MARINE from November to December in 2018. The first stage shareholding percentage increased from 10% to 90% and the second stage shareholding percentage increased to 100%. The acquired amount per share is about NT$461, the total amount of the purchase price was NT$281,155 thousand. The acquisition was completed in December 2018, with full ownership of the company.

5. Property, plant and equipment

	Land	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Other facilities	Construction in progress	Total
Cost:								
1 Jan. 2018	$342,678	$206,953	$277,238	$16,769	$20,767	$18,331	$9,667	$892,403
Additions	-	-	12,728	-	6,463	9,762	53,193	82,146
Acquired through business combinations	342,818	9,524	-	-	-	-	-	352,342
Disposals	-	-	(815)	(2,379)	(57)	-	-	(3,251)
Transfers	-	-	20,451	-	-	-	-	20,451
Other changes	-	-	(92)	-	-	-	-	(92)
Exchange differences	-	-	5,081	195	583	397	-	6,256
31 Dec. 2018	$685,496	$216,477	$314,591	$14,585	$27,756	$28,490	$62,860	$1,350,255
1 Jan. 2017	$342,678	$206,720	$257,509	$14,199	$20,057	$11,782	$9,667	$862,612
Additions	-	233	10,051	2,841	2,168	7,049	-	22,342
Disposals	-	-	(4,884)	-	(97)	-	-	(4,981)
Transfers	-	-	27,015	-	-	-	-	27,015
Exchange differences	-	-	(12,453)	(271)	(1,361)	(500)	-	(14,585)
31 Dec. 2017	$342,678	$206,953	$277,238	$16,769	$20,767	$18,331	$9,667	$892,403
Depreciation and impairment:								
1 Jan. 2018	$-	$56,543	$108,532	$7,814	$7,064	$5,617	$-	$185,570
Depreciation	--	4,743	38,197	2,302	3,752	3,268	-	52,262
Disposals	--	-	(815)	(1,671)	(57)	-	-	(2,543)
Transfers	--	-	-	-	-	-	-	-
Exchange differences	--	-	2,310	72	245	126	-	2,753
31 Dec. 2018	$-	$61,286	$148,224	$8,517	$11,004	$9,011	$-	$238,042
1 Jan. 2017	$-	$51,816	$84,314	$5,096	$4,855	$3,514	$-	$149,595
Depreciation	--	4,727	32,346	2,797	2,561	2,207	-	44,638
Disposals	--	-	(4,884)	-	(5)	-	-	(4,889)
Transfers	--	-	-	-	-	-	-	-
Exchange differences	--	-	(3,244)	(79)	(347)	(104)	-	(3,774)
31 Dec. 2017	$-	$56,543	$108,532	$7,814	$7,064	$5,617	$-	$185,570
Net book value:								
31 Dec. 2018	$685,496	$155,191	$166,367	$6,068	$16,752	$19,479	$62,860	$1,112,213
31 Dec. 2017	$342,678	$150,410	$168,706	$8,955	$13,703	$12,714	$9,667	$706,833

(1) No interest capitalization for the years ended 31 December 2018 and 2017.

(2) Please refer to Note 8 for more details on property, plant and equipment under pledge.

6. Intangible assets

	Computer software	Goodwill	Customer relationship	Total
Cost:				
As at 1 Jan. 2018	$14,475	$-	$-	$14,475
Addition-acquired separately	3,346	-	-	3,346
Acquisitions through business combinations	-	27,071	25,318	52,389
Exchange differences	225	1,497	1,401	3,123
As at 31 Dec. 2018	$18,046	$28,568	$26,719	$73,333
As at 1 Jan. 2017	$9,102	$-	$-	$9,102
Addition-acquired separately	5,615	-	-	5,615
Exchange differences	(242)	-	-	(242)
As at 31 Dec. 2017	$14,475	$-	$-	$14,475
Amortization and impairment:				
As at 1 Jan. 2018	$5,690	$-	$-	$5,690
Amortization	2,622	-	4,812	7,434
Exchange differences	70	-	87	157
As at 31 Dec. 2018	$8,382	$-	$4,899	$13,281
As at 1 Jan. 2017				
Amortization	$4,298	$-	$-	$4,298
Amortization	1,458	-	-	1,458
Exchange differences	(66)	-	-	(66)
As at 31 Dec. 2017	$5,690	$-	$-	$5,690
Net carrying amount as at:				
31 Dec. 2018	$9,664	$28,568	$21,820	$60,052
31 Dec. 2017	$8,785	$-	$-	$8,785

The amortization amounts of intangible assets are as follows:

	31 Dec. 2018	31 Dec. 2017
Operating Costs	$830	$581
Administrative expenses	6,604	877
Total	$7,434	$1,458

7. Other noncurrent assets

	31 Dec. 2018	31 Dec. 2017
Refundable deposits	$6,899	$4,696
Advance payments in equipment	42,721	27,672
Other current assets-other	1,149	1,656
Total	$50,769	$34,024

8.Impairment testing of goodwill

Goodwill acquired for business combination is tested for impairment. The goodwill of the Group is tested at the end of each year. The group of cash-generating unit benefiting from the consolidation of the synergies is as follows:

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the change in demand for services. The pre-tax discount rate applied to cash flow projections is 12.36% Cash flows beyond the five-year period are extrapolated using a 3%-10% growth rate that is the same as the long-term average growth rate for the electronics industry. As a result of this analysis, management has recognized no impairment loss of NTD28,568 thousand against goodwill.

The calculation of value-in-use for cash-generating unit are most sensitive to the following assumptions:
(1) Gross margin
(2) Discount rates
(3) Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins – Gross margins are based on average values achieved in recent years and estimated by future market trends.

Discount rates –The discount rate was estimated based on the weighted average cost of capital (WACC) for the Group, taking into account the particular situations of the Group and its operating segments. The WACC includes both the cost of liabilities and cost of equities. The cost of equities is derived from the expected returns of the Group's investors on capital, where the cost of liabilities is measured by the interest bearing loans that the Group has obligation to settle.

Growth rate estimates – Rates are based on historical experience. For the reasons explained above, the long-term average growth rate of the Group's budget has been adjusted due to the overall economic environment

Sensitivity to changes in assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

9. Short-term loans

	Interest rate range	31 Dec. 2018	31 Dec. 2017
Secured Loans	1.1628%~1.625%	$-	$379,632
Unsecured Loans	0.4034%~4.492%	784,357	673,676
Total		$784,357	$1,053,308

The Group's unused short-term lines of credits amounted to NT$421,206 thousand and NT$693,155 thousand as at 31 December 2018 and 2017, respectively.

Please refer to Note 8 for the detail of the assets pledged as collateral.

10. Short-term notes and bills payable

Item	Guarantee Institution	31 Dec. 2018	31 Dec. 2017
Commercial paper payable	International Bills Finance Corp., Mega Bills Finance Co., Ltd.	$320,000	$60,000
Less：Discount on commercial papers payable		(351)	(326)
Net		$319,649	$59,674
Interest rate range		0.657%~1.342%	0.96%

Short-term notes and bills payable were not pledged.

11. Long-term Loans

Details of long-term loans on 31 December, 2018 are as follows:

Lenders	As at 31 Dec. 2018	Interest Rate (%)	Maturity date and terms of repayment
The Export-Import Bank of the Republic of China unsecured bank loans	$146,000	1.468%	Repayable every six months from April 4, 2020 to April 4, 2024 with monthly interest payments.
Chang Hwa Bank secured bank loans	1,020,000	1.7895%	Repayable every six months from October 25, 2020 to April 25, 2024 with monthly interest payments.
Chang Hwa Bank secured bank loans	175,000	1.7895%	Repayable every six months from November 25, 2020 to May 25, 2024 with monthly interest payments.
Less: current portion	-		
Administrative expenses from syndicated loans (Note)	(10,784)		
Total	$1,330,216		

Note：The hosting and participation fee for Chang Hwa Commercial Bank and other 10 banks syndicated medium and long-term secured loans with line of credit in the amount of NT$3,200,000 thousand. The syndicated loan included: A. Repayment of loans from existing financial institutions: NT$1,020,000 thousand B. Purchase of Rocs Marine shares: NT$200,000 thousand. C. Purchase of property and equipment: NT$300,000 thousand D. Purchase of working capital: NT$990,000 thousand E. Medium term operating working capital: NT$300,000 thousand F. Medium term operating working capital: NT$390,000 thousand.

(1) The pledged for long-term loans, please refer to Note 8 for more details.

(2) For the agreements with the above banks regarding financial ratio limits during the credit period, please refer to Note 9 for more details.

12. Post-Employment Benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Other foreign subsidiaries of the Group contribute pension to relevant pension management enterprises in accordance with local regulations.

Expenses under the defined contribution plan for the years ended 31 December 2018 and 2017 were NT$24,878thousand and NT$19,897 thousand, respectively.

Defined benefits plan

The employee pension plan mandated by the Labor Standards Act of the R.O.C. is a defined benefit plan. The pension benefits are disbursed based on the units of service years and the average salary in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 4.2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited with the Bank of Taiwan under the name of an administered pension fund committee. Before the end of each year, the Company will estimate the aforementioned Labor Pension reserve accounts balance. If the balance is insufficient for the estimated payments to employees meeting the conditions of receiving labor pension within the following year, the Company will set aside the shortfall in full by end of March in the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under a mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT$239 thousand to its defined benefit plan for the following 12 months as of 31 December 2018.

The durations of defined benefit obligation for the years ended 31 December 2018 and 2017 will both expire in 8 years.

Pension costs recognized in profit or loss are as follows:

	2018	2017
Current service cost	$ 531	$747
Net interest on the net defined benefit liabilities	123	212
Total	$ 654	$959

Reconciliations of liabilities (assets) of the defined benefit obligation and plan assets at fair value are as follows:

	31 Dec. 2018	31 Dec. 2017	1 Jan. 2017
Defined benefit obligation	$33,922	$34,223	$38,104
Plan assets at fair value	(18,319)	(22,693)	(20,413)
Net defined benefit liabilities	$15,603	$11,530	$17,691

Reconciliations of liabilities (assets) of the defined benefit plan are as follows:

	Defined benefit obligation	Plan assets At fair value	Net defined benefit liabilities (assets)
As of 1 January 2017	$38,104	$(20,413)	$17,691
Current service cost	747	-	747
Interest expense (income)	457	(245)	212
Subtotal	39,308	(20,658)	18,650
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(325)	-	(325)
Actuarial gains and losses arising from changes in financial assumptions	345	-	345
Experience adjustments	(3,790)	-	(3,790)
Remeasurements of the defined benefit assets	-	123	123
Subtotal	(3,770)	123	(3,647)
Payments of benefit obligation	(1,315)	1,315	-
Contribution by employer	-	(3,473)	(3,473)
As of 31 December 2017	$34,223	$(22,693)	$11,530
Current service cost	531	-	531
Interest expense (income)	366	(243)	123
Subtotal	35,120	(22,936)	12,184
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	129	-	129
Actuarial gains and losses arising from changes in financial assumptions	559	-	559
Experience adjustments	3,534	-	3,534
Remeasurements of the defined benefit assets	-	(564)	(564)
Subtotal	4,222	(564)	3,658
Payment of benefit obligation	(5,420)	5,420	-
Contribution by employer	-	(239)	(239)
As of 31 December 2018	$33,922	$ (18,319)	$15,603

The principal underlying actuarial assumptions are as follows:

	31 Dec. 2018	31 Dec. 2017
Discount Rate	0.84%	1.07%
Rate of future salary Increase	1.00%	1.00%

Sensitivity analysis of each major actuarial assumption:

	2018		2017	
	Defined benefit obligations increase	Defined benefit obligations decrease	Defined benefit obligations increase	Defined benefit obligations decrease
Discount Rate increase 0.5%	$-	$1,194	$-	$1,268
Discount Rate decrease 0.5%	1,495	-	1,394	-
Future salary increase 0.5%	1,482	-	1,388	-
Future salary decrease 0.5%	-	1,198	-	1,275

The sensitivity analysis above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analysis compared to the previous period.

13. Provisions, current

	Maintenance warranties
As at 1 Jan. 2018	$21,753
Additions during the period	28,424
Used during the period	(27,347)
Exchange differences	260
As at 31 Dec. 2018	$23,090

	Maintenance warranties
As at 1 Jan. 2017	$11,127
Additions during the period	36,967
Used during the period	(26,003)
Exchange differences	(338)
As at 31 Dec. 2017	$21,753

A provision is recognized for expected warranty claims on products sold, based on past experience, management's judgement and other known factors.

14. Equity

(1) Common stock

The Company's authorized capital was NT$1,000,000 thousand and issued NT$930,623 thousand and NT$945,673 thousand with 93,062 thousand shares and 94,567 thousand shares as at 31 December 2018 and 31 December 2017, respectively, each at a par value of NT$10. Each share has one voting right and a right to receive dividends.

On 28 April 2017, a proposal for issuing new shares amounting to NT$173,344 thousand through capitalization of earnings was approved at the shareholders' meeting, with 17,334 thousand shares at a par value of NT$10. On 26 May 2017, the board of directors adopted the resolution and the base date was 4 July 2017. The change of registration was completed upon the approval of the competent authority.

On 25 October 2017, the board of directors resolved to issue common shares through cash increase, which was issued at premium, and the weighted average auction price was NT$80.2 per share, the public subscription offering price was NT$72.8 per share. The case was approved by the competent authority and the chairman of the board set the base date of capital increase on 7 December 2017, and the change of registration was completed.

The Company issued restricted stocks for employees in 2018 in the amount of NT$4,990 thousand, which was 499 thousand shares in total. The Company issued restricted stocks for employees in 2017 in the amount of NT$120 thousand, which was 12 thousand shares in total.

In 2018, the Company had employees holding restricted shares resigned. Therefore, according to the issuance method, the Company would take back without compensation and cancel 29 thousand shares at NT$10 per share, of which 17 shares have not changed registration yet.

The board agreed that the Company cancelled the first purchase common stocks in a total of 1,992 thousand shares in August 2018, and the change of registration was completed.

(2) Capital surplus

	31 Dec. 2018	31 Dec. 2017
Additional paid-in capital	$1,075,417	$1,098,435
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	(68,938)	(68,938)
Restricted stocks for employee	29,591	18,509
Expired stock options	5,248	5,248
Total	$1,041,318	$1,053,254

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(3) Treasury stock

The Company repurchased treasury stock in the amount of NT$180,337 thousand in 2018, and the number of treasury stock held by the Company was 3,355 thousand. The treasury stock repurchase was to maintain the Company's credit and shareholders' equity

In August 2018, the Company retired the first repurchased common stock in 2018 that were total 1,992 thousand shares.

(4) Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

A. Pay all taxes and dues
B. Offset prior years' operation losses
C. Set aside 10% of the remaining amount as legal reserve
D. Set aside or reverse special reserve in accordance with law and regulations
E. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting

The policy of dividend distribution should reflect factors such as the current and future development plan, investment environment, fund requirements, domestic and international competition as well as the interest of the shareholders and share bonus equilibrium, and the cash dividend issued shall be higher than 10% of the total dividends.

According to Taiwan Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Following the adoption of TIFRS, the FSC on 6 April 2012 issued order, which sets out the following provisions for compliance. On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gain and cumulative translation adjustments (gains) recorded to shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, the Company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity.

The Company has set aside special reserve of NT$5,593 thousand to retained earnings for the first time adoption of TIFRS during the years ended 31 December 2018 and 2017.

Details of the 2018 and 2017 earnings distribution and dividends per share as approved and resolved by the board of directors' meeting and shareholders' meeting on 18 March 2019 and 29 June 2018, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT$)	
	2018	2017	2018	2017
Legal reserve	$35,875	$27,400		
Cash dividend	181,877	191,972	$2	$2.07
Special reserve	(29,825)	34,031		
Total	$187,927	$253,403		

The Company's cash dividends in 2017 were affected because of recovered restricted new shares for employees exercising options and repurchasing treasury stock. Therefore, the Company adjusted the shareholder's dividend per share to NT$2.06691573 dollars.

Please refer to Note 6.19 for further details on employees' compensation and remuneration to directors and supervisors.

15. Share-based payment plans

Employees of the Company are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

(1) Share-based payment plan for employees of the company

On 25 October 2017, the Company, in pursuance of the resolution adopted by the board of directors, conducted the pre-initial public offering public underwriting capital increase by cash and issued 10,550 thousand shares. A total of 1,055 thousand shares of new stocks were retained for employees to subscribe to. The base date of employee stock option was 7 December 2017, and the change of registration was completed.

The relevant details of the aforementioned share-based payment plan are as follows:

Date of grant	Total number of share options granted (in thousands)	Exercise price of share options (NT$)
2017.11.27	1,055	$72.8

The inputs to the pricing model and assumptions used for the share-based payment plan are as follows:

	Cash increase of employee stock option retained
Dividend yield (%)	-
Expected volatility (%)	37.5
Risk-free interest rate (%)	0.32
Expected option life (Years)	0.03
Weighted average share price ($)	80.2
Option pricing model	Binomial option pricing model

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The expense recognized for share-based payment plan for employees are as follows:

	2018	2017
Total expense arising from equity-settled share-based payment transactions (all equity-settled share-based payment)	$-	$7,944

As of 2017, no cancellation or modification was made to the Company's share-based payment plan of.

(2) Restricted shares plan for employees

The board of directors resolved on 12 August 2016 to issue 182 units of restricted shares for employees . On 28 April 2017, the board resolved to issue 12 units of restricted shares for employees. On 7 May 2018, the board resolved to issue 315 units of restricted shares for employees. On 13 August 2018, the board resolved to issue 184 units of restricted shares for employees. Each unit equals 1,000 common shares therefore the above units issued amounted to 182,000 shares, 12,000 shares, 315,000 shares and 184,000 shares through bonus shares. When employees meet both service seniority and performance requirements during the vesting period, they will be granted the new restricted shares based on fixed schedules and percentages.

During the vesting period, restriction on the rights for employees is as follows:

A. During the vesting period, employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, the restricted employee shares, except for inheritance.

B. The attendance, proposals, speeches, votes and right to elect at the shareholders' meeting are made pursuant to the security trust contract.

C. Before the employees meeting the vesting conditions, except for being not entitled to subscribing toe new shares, the other rights of employees' restricted share plan are the same as the common shares issued by the Company. However, the dividends and bonuses shall also be deposited in a trust account.

In cases of any voluntary resignation, retirement and layoff of employees, the employees' restricted share options not yet meeting vesting conditions shall be deemed failing to meet vesting conditions from the effective date. The Company shall reclaim the shares without making any additional compensation to the employees and retire those shares.

In 2018, the company had employees with restricted shares resigned. Therefore, according to the issuance method, the company will take back without compensation and cancel 29 thousands shares, NT$10 per share, of which 17 shares have not change registered yet. Please refer to Note 6.14(1).

Information of the restricted share employee as of 31 December 2018 as follows:

Type	Grant date	Issued shares (thousands of shares)	Exercise price	Par fair value	Restricted Shares (thousands of shares)
The new restricted shares for employee	2016.09.21	182	$-	$153	71
The new restricted shares for employee	2017.06.12	12	$-	$140.2	8
The new restricted shares for employee	2018.05.30	315	$-	$57	301
The new restricted shares for employee	2018.08.28	184	$-	$47.2	174

The restricted shares granted to employees were measured at fair value, which resulted in a compensation expense amounted to NT$10,373 thousand and NT$10,311 thousand in 2018 and 2017, respectively. As of 31 December 2018 and 31 December 2017, balances of capital reserve-employee restricted shares and capital reserve-unearned employees' compensation were NT$29,591 thousand and NT$12,559 thousand, and balances of capital reserve-employee restricted shares and capital reserve-unearned employees' compensation were NT$18,509 thousand and NT$6,872 thousand, respectively.

16. Sales Revenue

	2018	**2017**
Revenue from contracts with customers		
Sales－Yachts	$3,781,372	$3,556,813
Others revenue	178,115	66,180
Total	$3,959,487	$3,622,993

Note: The Group has adopted IFRS 15 from 1 January 2018. The Group elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (1 January 2018).

The Group has adopted IFRS 15 from 1 January 2018. Analysis of revenue from contracts with customers during the year is as follows:

(1)Disaggregation of revenue

	2018
Sale of goods	$3,781,372
Other operating income	178,115
Total	$3,959,487

Timing of revenue recognition :	
At a point in time	$3,959,487

(2) Contract balances

Contract liabilities – current

	Beginning balance	Ending balance	Difference
Sales of goods	$87,748	$142,155	$54,407

The increase in the balance of contract liabilities of the Group from January 1 to December 31, 2018 was due to the unsatisfied performance obligations, of which NT$573,419 thousand increased due to the prepayment from customer, and the reduction of NT$519,012 thousand was because of the performance obligation was satisfied and was turned into revenue.

(3)Transaction price allocated to unsatisfied performance obligations

None

(4)Assets recognized from costs to fulfil a contract

None

17. Expected credit losses (gains)

	2018	2017 (note)
Operating expenses – Expected credit losses/(gains)		
Account receivables	$-	

Note: The Group adopted IFRS 9 since 1 January 2018. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Group measures trade receivables at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance as at 31 December 2018 is as follows:

		Overdue				
	Not yet due	1-30 days	31-60 days	61-90 days	>=91 days	Total
Trade receivables gross carrying amount	$593,581	$1,290	$452	$104	$20,396	$615,823
Loss ratio	0%	0%	0%	0%	0%	
Lifetime expected credit losses	-	-	-	-	-	-
Carrying amount	$593,581	$1,290	$452	$104	$20,396	$615,823

The movement in the provision for impairment of trade receivables during 2018 is as follows:

	Notes receivables	Account receivables
Beginning balance (in accordance with IAS 39)	$-	$-
Transition adjustment to retained earnings	-	-
Beginning balance (in accordance with IFRS 9)	-	-
Addition/(reversal) for the current period	-	-
Ending balance (in accordance with IAS 39)	$-	$-

18. Operating leases

Operating lease commitments - Group as lessee

The Group has entered into commercial leases on property. These leases have an average life of 2 to 10 years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2018 and 2017 are as follows:

	31 Dec. 2018	31 Dec. 2017
Not later than one year	$182,774	$76,811
Later than one year and not later than five years	200,345	190,825
Later than five years	186,021	208,884
Total	$589,140	$476,520

Operating lease expenses recognized are as follows:

	2018	2017
Minimum lease payments	$69,738	$53,433

19. Summary statement of employee benefits, depreciation and amortization expenses by function for the years ended 31 December 2018 and 2017:

Function / Character	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Salaries	$396,505	$256,133	$652,638	$357,113	$226,637	$583,750
Labor and health insurances	47,829	28,412	76,241	60,568	26,218	86,786
Pensions	12,570	12,962	25,532	11,686	9,170	20,856
Director's remuneration	-	12,702	12,702	-	12,719	12,719
Other employee benefits expense	4,117	11,719	15,836	1,015	7,487	8,502
Depreciation	47,400	4,862	52,262	40,508	4,130	44,638
Amortization	830	6,604	7,434	581	877	1,458

According to the Articles of Incorporation of the Company, no less than 1% profit of the current year is distributable as employees' compensation. The Company may distribute the profit as employees' compensation in the form of shares or cash, and no more than 5% profit of the current year is distributable as remuneration to directors and supervisors. In addition, the report of such distribution shall be submitted to the shareholders' meeting. However, the Company's accumulated losses shall have been made up for. The aforementioned employees' compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors' meeting attended by two thirds or more of the directors and be reported at a shareholders' meeting. Information on the board of directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of 2018, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2018 to be 3.73% of profit (or NT$15,127 thousand) and 0% of profit (or NT$0), respectively, which are recognized as salaries expense. On 18 March 2019 the board of directors resolved to distribute the employees' compensation and remuneration to directors and supervisors in cash in the amount of NT$15,126 thousand and NT$0, respectively. The difrerence of NT$1 thousand is not material in this year, it will be recognized in profit or loss of 2019.

On 30 March 2018, the board of directors resolved to distribute NT$15,635 thousand and NT$0 in cash as employees' compensation and remuneration to directors and supervisors, respectively. No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2017.

20. Non-operating income and expenses

(1) Other income

	2018	2017
Interest income	$1,596	$664
Rent income	1,200	273
Other income	88,398	65,121
Total	$91,194	$66,058

(2) Other gains and losses

	2018	2017
Gain (Loss) on disposal of property, plant and equipment	$160	$18
Gains (losses) on disposal of investments	7,834	-
Foreign exchange gain (loss) - net	59,823	(79,826)
Other expenditure	(49)	(143)
Total	$67,768	$(79,951)

(3) Finance costs

	2018	2017
Interest on borrowings from bank	$ (33,346)	$ (21,274)
Amortization of discount on short-term notes and bills payable	(1,504)	(68)
Total	$ (34,850)	$(21,342)

21. Components of other comprehensive income

Components of other comprehensive income as of 2018 are as follows:

	Arising during the period	Tax Benefit (Expense)	Net of Tax
Not to be reclassified to profit or loss in subsequently periods:			
Remeasurements of defined benefit plan	$ (3,657)	$731	$ (2,926)
To be reclassified to profit or loss in subsequently periods:			
Exchange differences resulting from translating of foreign operations	35,513	-	35,513
Total	$31,856	$731	$32,587

Components of other comprehensive income as of 2017 are as follows:

	Arising during the period	Tax Benefit (Expense)	Net of Tax
Not to be reclassified to profit or loss in subsequently periods:			
Remeasurements of defined benefit plan	$3,646	$(619)	$3,027
To be reclassified to profit or loss in subsequently periods:			
Exchange differences resulting from translating of foreign operations	(43,340)	380	(42,960)
Total	$(39,694)	$(239)	$(39,933)

22. Income Tax

Based on the amendments to the Income Tax Act announced on February 7, 2018, the Company's applicable corporate income tax rate for the year ended December 31, 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense are as follows:

Income tax recorded in profit or loss

	2018	2017
Current income tax expense (benefit):		
Current income tax charge	$18,743	$63,129
Adjustments in respect of current income tax of prior periods	322	48
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to origination and reversal of temporary differences	15,552	(11,404)
Deferred tax expense (income) relating to organization and reversal of tax loss and tax credit	2,749	(47,186)
Deferred income tax related to changes in tax rates	(4,838)	73,703
Other components of deferred tax expense (income)	-	(11,814)
Total Income tax expense (income)	$32,528	$66,476

Income tax relating to components of other comprehensive income

	2018	2017
Deferred income tax expense (benefit):		
Gain (loss) from defined benefit plan	$(731)	$619
Exchange differences on translation of foreign operations	-	(380)
Income tax relating to components of other comprehensive income	$(731)	$239

A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rate is as follows:

	2018	2017
Accounting profit before tax from continuing operations	$391,311	$340,474
Using related country's statutory income tax rate	$78,533	$55,115
Tax effect of expenses not deductible for tax purposes	(35,457)	(32,070)
Tax effect of deferred tax assets/liabilities	(8,049)	(57,339)
10% surtax on undistributed retained earnings	2,362	27,020
Deferred income tax related to changes in tax rates	(4,838)	73,703
Adjustments in respect of current income tax of prior periods	322	47
Other	(345)	-
Total income tax expenses recognized in profit or loss	$32,528	$66,476

Significant components of deferred income tax assets and liabilities are as follows:

	As of 1 Jan. 2018	Recognized in income	Recognized in other comprehensive income	As of 31 Dec. 2018
Temporary differences				
Unrealized exchange (gain) loss	$7,348	$(11,103)	$-	$(3,755)
Net defined benefit liabilities, noncurrent	1,955	428	731	3,114
Unused tax losses	130,222	1,431	-	131,653
Other	17,320	(65)	-	17,255
Provision for land value increment tax	(8,411)	(41,227)	-	(49,638)
Deferred income tax (Expenses)		$(50,536)	$731	
Deferred tax assets and Liability Net	$148,434			$98,629
As presented on the financial statement:				
Deferred tax assets	$156,845			$152,022
Deferred tax liabilities	$(8,411)			$(53,393)

	As of 1 Jan. 2017	Recognized in income	Recognized in other comprehensive income	As of 31 Dec. 2017
Temporary differences				
Unrealized exchange (gain) loss	$ (2,939)	$10,287	$-	$7,348
Exchange differences on translation of foreign operations	(380)	-	380	-
Net defined benefit liabilities, noncurrent	3,001	(427)	(619)	1,955
Unused tax losses	159,524	(29,302)	-	130,222
Other	12,991	4,329	-	17,320
Provision for land value increment tax	(8,411)	-	-	(8,411)
Deferred income tax (Expenses)		$ (15,113)	$ (239)	
Deferred tax assets and Liability Net	$163,786			$148,434
As presented on the financial statement:				
Deferred tax assets	$175,516			$156,845
Deferred tax liabilities	$ (11,730)			$ (8,411)

The following table contains information of the unused tax losses of the Group:

Year	Loss occurred	31 Dec. 2018	31 Dec. 2017	Expiration year
2015	$249,486	$249,486	$249,486	2035
2016	250,220	250,220	250,220	2036
2017	325,242	325,242	325,242	2037
2018	300,721	300,721	-	No limit
Total		$1,125,669	$824,948	

Unrecognized deferred tax assets

As of 31 December 2018 and 2017, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amounted to NT$158,509 thousand and NT$61,746 thousand, respectively.

Unrecognized Deferred Income Tax Liabilities Related to Investment Subsidiaries
The Company did not recognize deferred income tax liabilities, which was related to income tax payable that may arise from undistributed earnings from foreign subsidiaries. The Company has decided not to allocate the undistributed earnings of its subsidiaries for the foreseeable future. As of December 31, 2018 and 2017, the total amount of taxable temporary differences not recognized as deferred income tax liabilities was NT$177,284 thousand and NT$121,295 thousand, respectively.

The assessment of income tax returns:

As of 31 December 2018, the Group applied income tax as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2016
Subsidiary- AMI	Assessed up to 2017
Subsidiary- AMUSA	Assessed up to 2017
Subsidiary- MIBW	Assessed up to 2017

23. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible bonds payable) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	2018	2017
(1) Basic earnings per share		
Net income (in thousands)	$358,755	$273,998
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	93,237	84,561
Basic earnings per share (NT$)	$3.85	$3.24
(2) Diluted earnings per share		
Net income (in thousands)	$358,755	$273,998
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	93,237	84,561
Effect of dilution:		
Employee bonus－stock (in thousands)	415	206
Restricted stocks for employee	239	106
Weighted average number of ordinary shares outstanding after dilution (in thousands)	$93,891	$84,873
Diluted earnings per share (NT$)	$3.82	$3.23

From the report date to the day the financial statement was published, no other significant transactions affected the outstanding common shares or potential ordinary shares.

24. Business combination

(1) The Group acquired 90% of Rocs Marine Industry Corporation from November 2018 to December 2018. The company was established in Taiwan and was a non-listed company that operated real estate leasing business. The reason for the Group's acquisition of Rocs Marine Industry Corporation. was to enhance the Group’s planning capability, market sales and long-term strategic development.

The fair value of the identifiable assets and liabilities of Rocs Marine Industry Corporation. as at the date of acquisition was:

	Fair value recognized on the acquisition date
Assets	
Cash and cash equivalents	$8,383
Other current assets	436
Property, plant and equipment	352,341
	$361,160
Liabilities	
Expense Payable	$58
Other non-current liabilities	41,227
	41,285
Identifiable net assets	$319,875

	Fair value recognized on the acquisition date
Purchase consideration	$281,155
Add: non-controlling interests at fair value(9.64% of identifiable net assets at fair value)	30,184
Less: identifiable net assets at fair value	319,875
Bargain purchase gain	$8,536

Cash flow on acquisition

	Fair value recognized on the acquisition date
Net cash acquired with the subsidiary	$8,383
Cash paid	(281,155)
Net cash outflow	$(272,772)

The fair value of the net assets recognized on the acquisition date is based on the evaluation of an independent external appraisal expert.

(1) The Group obtained Pacific Coast Yacht Services in the amount of NT$52,389 thousand in February 2018. The reason for the Group's acquisition of the yacht maintenance business is to build a complete yacht service platform and expand its business scale to enhance operational performance and competitiveness.

The fair value of the identifiable assets of Pacific Coast Yacht Services Inc. as at the date of acquisition were:

	Fair value recognized on the acquisition date
Assets	
Intangible assets－patents and concessions	$25,318
Identifiable net assets	$25,318
Purchase consideration	$52,389
Less: identifiable net assets at fair value	25,318
Goodwill	$27,071

Goodwill in the amount of NT$27,071 is expected as a result of the acquisition.

25. Changes in parent's interest in subsidiaries

Acquisition of additional interest in a subsidiary

On 30 December 2016, the Group restructured by acquiring 100% of the voting shares of the substantially merged individual, Merritt Island Boat Works, Inc. A cash consideration of NT$432,150 thousand was paid to the noncontrolling interest shareholders. The carrying amount of Merritt Island Boat Works, Inc.'s net assets (excluding goodwill on the original acquisition) was NT$363,212 thousand. The following is a schedule of interest acquired from Merritt Island Boat Works, Inc.:

Cash consideration paid to non-controlling shareholders	$432,150
The carrying amount of Merritt Island Boat Works, Inc.'s net assets	(363,212)
Difference recognized in capital surplus or retained earning within equity	$68,938

The Group paid cash consideration to acquire the shares of Merritt Island Boat Works, Inc. to the non-controlling shareholders. The last installments were paid in June 2018.

VII. RELATED PARTIES TRANSACTIONS

Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
Rocs Marine Industry Corporation.	Associate of the Company(Note)
United Marine Holdings	Other related parties
Port Field Worldwide Limited	Other related parties
Johnny Chueh and other management	Management of the Group
Anna Chueh	Other related parties

Note: The Group obtained control of Rocs Marine Industry Corporation in November 2018 and the company was included in the Group's consolidated financial statements.

Significant transactions with the related parties

1. Other payables

	31 Dec. 2018	31 Dec. 2017
Johnny Chueh	$30,905	$-
Other related parties	-	130,944
Total	$30,905	$130,944

2. Operating leases

Related Parties Name	Rent expense 2018	Rent expense 2017	Leases period	Lease Location	function
Associate of the Group	$- (Note)	$5,945	Feb. 2015～ Jan. 2024	No. 18, Tongli Rd., Xiaogang Dist., Kaohsiung City 812, Taiwan (R.O.C.)	Office and Yacht Manufacturing
Other related parties	5,432	5,474	Jul. 2018 Jan. 2020	115N. Northlake Way Seattle, USA	Yacht dock
	$5,432	$11,419			

Note: The Group acquired 100% ownership interest of Rocs Marine Industry Corporation in December 2018 and was written off when the consolidated statements were prepared.

The total rent expense to be paid in the coming years are as follows:

Year	Amount
Oct. 2018～Jan. 2020	$5,884

3. Transactions of Property

The property the Company purchase from related parties in 2018:

Related parties name	Object of transaction	Acquired price	Price determined
Johnny Chueh	Share of Rocs Marine Industry Corporation.	$63,758	Note
Anna Chueh	Share of Rocs Marine Industry Corporation.	$63,758	Note

Note: The price was determined by Rocs Marine Industry Corporation's equity net worth and the evaluated price report.

4. Key management personnel compensation

	2018	2017
Short-term employee benefits	$19,300	$19,178
Post-employment benefits	279	267
Total	$19,579	$19,445

5. As of December 31, 2018, Johnny Chueh was a joint loan guarantor for the Company's borrowing from financial institutions.

VIII. ASSETS PLEDGED AS COLLATERAL

The following table lists assets of the Group pledged as security:

Item	Amount		Purpose of pledge
	31 Dec. 2018	31 Dec. 2017	
Other financial assets, current	$85,650	$41,466	Bank loans
Other financial assets, noncurrent	30,715	29,760	Florida Department of Economic Opportunity Division of Strategic Business Development
Land	342,678	342,678	Bank loans
Buildings	145,671	150,411	Bank loans
Total	$604,714	$564,315	

IX. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENT

1. As of 31 December 2018, the on-going constructions were as follows:

Contract Name	Contract Price (in Thousands)	Paid Amount (in Thousands)	Unpaid Amount (in Thousands)
Heightening (Guangyang Street)	$59,000	$40,157	$18,843
Construction in progress (Jin-fu Road)	$32,000	$9,667	$22,333
Yacht Mold	49,399	29,870	19,529

2. As of 31 December 2018, the Group had issued unused letter of credits in the amount of NT$20,240 thousand.

3. In connection with the yacht flaws dispute, David Parker and Big Bird Holding LLC filed an action against the Company and Ocean Alexander Marine Yacht Sales Inc. (“OAMYS”, a related party) in the United States District Court -Central District of California. The court of first instance found that the Company and OAMYS shall pay a sum of US $ 3,931 thousand. The defendants filed an appeal and the proportion or amount of the required compensation have not been determined. The majority shareholder of the Company has issued an undertaking that stated that in the event the compensation is finalized, it will assume the responsibility of the full compensation payment. The Company's assessment of the aforesaid events revealed that they had no significant impact on the Company's current operations.

4. In connection with the yacht flaws dispute and on account of subrogation right, Northern Insurance Company of New York and Federal Insurance Company filed an action against the Company, and requested compensations in the amount of US$1,500 thousand and US$300 thousand, respectively, from the Company. In the settlement between the two parties, in addition to the compensation paid by the insurance company, the Company was required to pay USD$45,000 as compensation, which has been paid by the major shareholders. After the case was settled, the Northern Insurance Company of New York and the Federal Insurance Company withdrew this action on 7 April 2017.

5. The syndicated loan agreement the Company signed with the Chang Hwa Commercial Bank and other ten banks, stated that during the credit period from 2019 to 2023, the Company's current ratio audited every six months shall maintain at 100%(inclusive) or above; debt ratio shall not be higher than 150%; the interest coverage ratio shall maintain at 200%; tangible net worth at least NT$170,000 thousand. If the Company does not comply with the above loan requirements as shown on the expiration day and that if the Chang Hwa Commercial Bank considers necessary, Chang Hwa Commercial Bank may call a meeting of the banks to decide on a course of action by majority vote with respect to the matter or request written approval from the majority of the banks for such course of action when necessary.

X. SIGNIFICANT DISASTER LOSS

None

XI. SIGNIFICANT SUBSEQUENT EVENTS

None

XII. OTHER

1. Categories of financial instruments

Financial Assets

	31 Dec. 2018	31 Dec. 2017
Financial assets measured at amortized cost (Note 2)	$1,525,558	(Note 1)
Loan and receivables (Note 3)	(Note 1)	$994,136
Total	$1,525,558	$994,136

Financial Liabilities

	31 Dec. 2018	31 Dec. 2017
Financial liabilities at amortized cost:		
Short-term loans	$784,357	$1,053,308
Short-term notes and bills payable	319,649	59,674
Notes payable, account payable and other payable (includes related parties)	416,578	424,786
Long-term loans	1,330,216	-
Total	$2,850,800	$1,537,768

Note:

1. The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provison in IFRS 9.
2. Including cash and cash equivalents (excluding cash on hand), notes receivable, trade receivables, other receivables, refundable deposits and other financial assets.
3. Including cash and cash equivalents (excluding cash on hand), notes receivable, trade receivables, other receivables, refundable deposits and other financial assets.

2. Financial risk management objectives and policies

The Group's risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies, measures and manages the aforementioned risks based on policy and risk appetite.

The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.

3. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise currency risk, interest rate risk, and other price risk (such as equity instruments related risks).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Group's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Group's foreign currency risk is mainly affected by US dollar fluctuations. Sensitivity analysis is as follows:

When NTD strengthens/weakens against USD by 1%, the profit for the years ended 31 December 2018 and 2017 is increased/decreased by NT$11,348 thousand and NT$5,202 thousand, respectively.

When NTD strengthens/weakens against EUR by 1%, the profit for the years ended 31 December 2018 and 2017 is increased/decreased by NT$183 thousand and NT$811 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for it.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and borrowings with variable interest rates and interest rate swaps. At the reporting date, a change of 10 basis points of interest rate in a reporting period could cause the profit for the years ended 31 December 2018 and 2017 to decrease/increase by NT$1,229 thousand and NT$660 thousand, respectively.

4. Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Group is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customer's credit risk will also be managed by taking credit enhancement procedures, such as requesting for unearned receipts.

As of 31 December 2018 and 2017 accounts receivables from the top ten customers represented 95% and 100% of the total accounts receivables of the Group, respectively.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

5. Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments, bank borrowings, convertible bonds and finance leases. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
31 Dec. 2018					
Short-term loans	$1,105,350	$-	$-	$-	$1,105,350
Payables	415,234	-	-	-	415,234
Long-term loans	23,528	473,285	931,782	-	1,428,595
31 Dec. 2017					
Loans	$1,114,376	$-	$-	$-	$1,114,376
Payables	423,392	-	-	-	423,392

6. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 2018:

	Short-term loans	Short-term notes and bills Payable	Long-term loans	Total liabilities from financing activities
As at 1 Jan. 2018	$1,053,308	$59,674	$-	$1,112,982
Cash flows	(268,951)	258,408	1,329,800	1,319,257
Non-cash changes				
Discount amortization	-	1,567	-	1,567
Interest expense	-	-	416	416
As at 31 Dec. 2018	$784,357	$319,649	$1,330,216	$2,434,222

Reconciliation of liabilities for the year ended December 2017:
Not applicable.

7. Fair value of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments:

The fair value of the financial assets and liabilities is determined at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

A. The carrying amount of cash and cash equivalents, accounts receivables and accounts payable approximate their fair value.

B. Fair value of debt instruments without market quotations, bank loans, bonds payable and other noncurrent liabilities are determined based on the counterparty prices or valuation method. The valuation method uses discounted cash flow method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

C. For refundable deposits and deposits received, the carrying amount is used to approximate fair value since anticipated inflows/outflows in the future are close to the carrying amount.

(2) Fair value of financial instruments measured at amortized cost

The carrying amount of the Group's financial assets and liabilities measured at amortized cost approximate their fair value.

(3) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy information

The Group does not have repetitive assets and liabilities measured at fair value.

8. Significant assets and liabilities denominated in foreign currencies

The Group's significant assets and liabilities denominated in foreign currencies are as follows:

Unit: thousands

	31 Dec. 2018		
	Foreign Currency	Exchange	NTD
Financial Assets			
Monetary items:			
USD	$48,767	30.715	$1,497,878
EUR	831	35.200	29,251
Financial Liabilities			
Monetary items:			
USD	11,821	30.715	363,082
EUR	1,351	35.200	47,555

	31 Dec. 2017		
	Foreign Currency	Exchange	NTD
Financial Assets			
Monetary items:			
USD	$32,250	29.76	$959,760
EUR	1,292	35.57	45,956
Financial Liabilities			
Monetary items:			
USD	14,771	29.76	439,585
EUR	3,571	35.57	127,020

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

The Group's entities use a number of functional currencies hence it is not practical to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant foreign currencies. The foreign exchange gains were $59,823 thousand and 79,826 thousand for the years ended December 31, 2018 and 2017, respectively.

9. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

XIII. OPERATING SEGMENT INFORMATION

1. The Group s principal activities consist of manufacturing and sales of yachts. For management purposes, the Group is organized into business units for the purpose of making decisions about resource allocation and performance assessment and has one reportable operating segment. Please refer to consolidated balance sheets and consolidated statements of comprehensive income for the years ended 31 December 2018 and 31 December 2017 for the information on profit or loss, assets and liabilities of the reportable segment.

2. Geographic information:

Sales from external customers

Country	2018	2017
The United States	$3,959,487	$3,622,993

Noncurrent asset:

Country	31 Dec. 2018	31 Dec. 2017
Taiwan	$1,018,345	$590,869
The United States	235,404	188,533
Total	$1,253,749	$779,402

3. Important customer information:

	2018		2017	
	Amount	Percentage of net sales revenue	Amount	Percentage of net sales revenue
Client A	$1,760,253	44%	$2,073,019	57%

Appendix 2

ALEXANDER MARINE CO., LTD.

PARENT COMPANY ONLY FINANCIAL STATEMENTS

WITH REPORT OF INDEPENDENT AUDITORS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

Address: No. 1, Jinfu Rd., Qianzhen Dist., Kaohsiung City 806, Taiwan R.O.C.

Telephone: 886-7-831-412

The reader is advised that these parent company only financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

Independent Auditors' Report

To ALEXANDER MARINE CO., LTD.

Opinion

We have audited the accompanying parent company only balance sheets of ALEXANDER MARINE CO., LTD. (the "Company") as of December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2018 and 2017.

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and cash flows for the years ended December 31, 2018 and 2017, in conformity with the requirements of 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 Parent Company Only Financial Statements* section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2018 parent company only financial statements. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue Recognition

   Net sales recognized by the Company amounted to NT$1,503,915 thousand for the year ended December 31, 2018. Sales is recognized when the product is delivered to the customer and the ownership is transferred to the customer. As the timing of revenues recognition has to be further confirmed, therefore, we considered this a key audit matter. Our audit procedures included (but are not limited to) assessing the appropriateness of the accounting policy of revenue recognition; evaluating and testing the design and operating effectiveness of internal control around the timing of revenue recognition; selecting samples to perform tests of details and reviewing the significant terms and conditions of contracts or orders; and inspecting the related transaction vouchers and receipts. We also assessed the adequacy of disclosures of operating revenues. Please refer to Note 6. (15) to the parent company only financial statements.

2. Valuation for Inventories

   As December 31, 2018, the Company's net inventories amounted to NT$1,011,670 thousand, which is significant for the financial statements. As the industry is characterized by the specification and interior decors of individual yachts, the assessment of the net realizable value is based on the estimated price of individual inventory. In addition, considering identification of obsolete inventory and the assessment of the amount of inventory write-downs require significant management judgment, we determined this a key audit matter.

   Our audit procedures included (but are not limited to) assessing the appropriateness of accounting policies for inventory aging and obsolescence inventory; assessing the methods and assumptions used by the management; testing key assumptions for valuation of inventory, including accuracy of the calculation of net realizable value; and assessing the management's inventory plan and selecting the important stock location for inventory observation to confirm the quantity and status of the inventory.

   We also assessed the adequacy of disclosures of inventories. Please refer to Notes 5 and 6. (3) to the parent company only financial statements.

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

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the requirements of 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 the parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company.

Auditor's Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the parent company only financial statements.

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

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 ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the accompanying notes, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only 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 2018 parent company only financial statements and are therefore the key audit matters. We describe these matters in our auditor's 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.

Chen, Cheng-Chu

Lee, Fang-Wen

Ernst & Young, Taiwan
18 March, 2019

Notice to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, results of operations 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 accepted and applied in the Republic of China.

Accordingly, the accompanying parent company only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Notes	31 December 2018		31 December 2017	
		Amount	%	Amount	%
Current assets					
Cash and cash equivalents	IV/VI.1	$122,629	2	$206,525	5
Accounts receivable from related parties, net	IV/VI.2/VII	999,188	18	792,079	19
Other receivables from related parties	IV/VII	402,563	7	978,492	23
Inventories, net	IV/VI.3	1,011,670	18	889,778	21
Prepayments		43,082	1	81,862	2
Other financial assets, current	VIII	85,650	2	41,466	1
Other current assets		19,887	-	8,865	-
Total current assets		2,684,669	48	2,999,067	71
Noncurrent assets					
Investments accounted for under the equity method	IV/VI.4	2,170,043	40	591,782	14
Property, plant and equipment	IV/VI.5/VIII	615,205	11	578,110	14
Intangible assets	IV/VI.6	3,490	-	3,035	-
Deferred tax assets	IV/VI.21	18,441	-	27,417	1
Other financial assets, noncurrent	VI.7	47,313	1	9,724	-
Total noncurrent assets		2,854,492	52	1,210,068	29
Total assets		$5,539,161	100	$4,209,135	100

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD.

PARENT COMPANY ONLY BALANCE SHEETS

31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31 December 2018		31 December 2017	
		Amount	%	Amount	%
Current liabilities					
Short-term loans	IV/VI.8	$784,357	14	$1,053,308	25
Short-term notes and bills payable	IV/VI.9	319,649	6	59,674	2
Notes payable		5,435	-	6,548	-
Accounts payable		82,667	1	85,920	2
Accounts payable to related parties	VII	29,252	1	30,062	1
Other payables		103,460	2	105,676	3
Other payables to related parties	VII	35,423	1	7,093	-
Current tax liabilities	IV	642	-	50,830	1
Provision, current	IV/VI.12	14,742	-	13,631	-
Other current liabilities		3,221	-	3,422	-
Total current liabilities		1,378,848	25	1,416,164	34
Noncurrent liabilities					
Long-term loans	IV/VI.10	1,330,216	24	-	-
Deferred tax liabilities	IV/VI.21	12,166	-	8,411	-
Net defined benefit liabilities, noncurrent	IV/VI.11	15,603	-	11,530	-
Total noncurrent liabilities		1,357,985	24	19,941	-
Total liabilities		2,736,833	49	1,436,105	34
Equity					
Common stock	VI.13.14	930,623	17	945,673	22
Capital surplus		1,041,318	19	1,053,254	25
Retained earnings					
Legal reserve		122,052	2	94,652	2
Special reserve		47,978	1	13,947	-
Unappropriated earnings		733,596	13	713,482	18
Total Retained earnings		903,626	16	822,081	20
Other equity		(18,152)	-	(47,978)	(1)
Treasury stock		(55,087)	(1)	-	-
Total equity		2,802,328	51	2,773,030	66
Total liabilities and equity		$5,539,161	100	$4,209,135	100

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share Information)

ITEMS	NOTE	2018		2017	
		Amount	%	Amount	%
Net operating revenue	Ⅳ/Ⅵ.15	$1,503,915	100	$1,721,140	100
Operating costs	Ⅳ/Ⅵ.3.17.18	(1,232,433)	(82)	(1,332,941)	(77)
Gross profit		271,482	18	388,199	23
Unrealized gross profit on sale		(31,220)	(2)	(43,460)	(3)
Realized gross profit on sale		61,857	4	33,225	2
Gross profit, net		302,119	20	377,964	22
Operating expenses	Ⅵ.11.17.18				
Selling expenses		(68,223)	(5)	(81,548)	(5)
General and administrative expenses		(67,413)	(4)	(81,981)	(5)
Total operating expenses		(135,636)	(9)	(163,529)	(10)
Operating income		166,483	11	214,435	12
Non-Operating income and expenses	Ⅳ/Ⅵ.4.19				
Other income		13,363	1	15,729	1
Other gains and losses		68,476	5	(80,084)	(5)
Finance cost		(26,926)	(2)	(19,806)	(1)
Share of profit of associates and joint ventures accounted for using equity method		169,542	11	193,932	11
Total non-operating income and expenses		224,455	15	109,771	6
Income before income tax		390,938	26	324,206	18
Income tax expense	Ⅳ/Ⅵ.21	(32,183)	(2)	(50,208)	(3)
Net income		358,755	24	273,998	15
Other comprehensive income	Ⅳ/Ⅵ.20				
Items that will not to be reclassified subsequently to profit or loss					
Remeasurements of the defined benefit pension plan		(3,657)	-	3,646	-
Income tax related to items that will not be reclassified		731	-	(619)	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foregin opreations		35,513	2	(43,340)	(3)
Income tax related to items that may be reclassified subsequently		-	-	380	-
Other comprehensive income, net of income tax		32,587	2	(39,933)	(3)
Total comprehensive income		$391,342	26	$234,065	12
Earning per share					
Basic Earning Per Share (in NT dollars):	Ⅵ.22	$3.85		$3.24	
Diluted Earnings Per Share (in NT dollars):		$3.82		$3.23	

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

For the Years Ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

ITEMS	Common Stock	Capital surplus	Retained Earnings			Other equity		Treasury Stock	Total equity
			Legal reserve	Special reserve	Unappropriated earnings	Exchange differences resulting on translation of foreign operations	Employee unearned reward		
Balance as of 1 January 2017	$666,709	$328,309	$40,435	$5,593	$715,708	$1,854	$(15,801)	$-	$1,742,807
Appropriations and distributions of 2016 retained earnings:									
Legal reserve	-	-	54,217	-	(54,217)	-	-	-	-
Special reserve	-	-	-	8,354	(8,354)	-	-	-	-
Cash dividend	-	-	-	-	(43,336)	-	-	-	(43,336)
Stock dividend	173,344	-	-	-	(173,344)	-	-	-	-
Net income for the year ended 31 December 2017	-	-	-	-	273,998	-	-	-	273,998
Other comprehensive income (loss) for the year ended 31 December 2017	-	-	-	-	3,027	(42,960)	-	-	(39,933)
Total comprehensive income	-	-	-	-	277,025	(42,960)	-	-	234,065
Capital increased by cash	105,500	718,435	-	-	-	-	-	-	823,935
Share-based payment	-	5,248	-	-	-	-	-	-	5,248
Restricted stocks for employee	120	1,262	-	-	-	-	8,929	-	10,311
Balance as of 31 December 2017	$945,673	$1,053,254	$94,652	$13,947	$713,482	$(41,106)	$(6,872)	$-	$2,773,030
Balance as of 1 January 2018	$945,673	$1,053,254	$94,652	$13,947	$713,482	$(41,106)	$(6,872)	$-	$2,773,030
Appropriations and distributions of 2017 retained earnings:									
Legal reserve	-	-	27,400	-	(27,400)	-	-	-	-
Special reserve	-	-	-	34,031	(34,031)	-	-	-	-
Cash dividend	-	-	-	-	(191,972)	-	-	-	(191,972)
Net income for the year ended 31 December 2018	-	-	-	-	358,755	-	-	-	358,755
Other comprehensive income (loss) for the year ended 31 December 2018	-	-	-	-	(2,926)	35,513	-	-	32,587
Total comprehensive income	-	-	-	-	355,829	35,513	-	-	391,342
Purchase of treasury stock	-	-	-	-	-	-	-	(180,337)	(180,337)
Treasury stock cancelled	(19,920)	(23,018)	-	-	(82,312)	-	-	125,250	-
Restricted stocks for employee	4,870	11,082	-	-	-	-	(5,687)	-	10,265
Balance as of 31 December 2018	$930,623	$1,041,318	$122,052	$47,978	$733,596	$(5,593)	$(12,559)	$(55,087)	$2,802,328

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

For the Years Ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

Item	2018 Amount	2017 Amount	Item	2018 Amount	2017 Amount
Cash flows from operating activities:			**Cash flows from investing activities**		
Net income before tax	$390,938	$324,206	Acquisition of investments accounted for using equity method	(464,888)	-
Adjustments to reconcile net income before tax to net cash provided by operating activities:			Equity method investee capital deducted by fund returned	-	1,516
Depreciation	17,240	15,369	Acquisition of property, plant and equipment	(55,043)	(1,558)
Amortization	1,009	768	Proceeds from disposal of property, plant and equipment	868	110
Interest expense	26,926	19,806	Acquisition of intangible assets	(1,464)	(1,473)
Interest revenue	(3,332)	(546)	Decrease in other financial assets	(44,184)	19,319
Share-based payment expenses	10,265	15,559	Net cash (used in) investing activities	(564,711)	17,914
Share of (profit) of associates and joint ventures accounted for using equity method	(169,542)	(193,932)			
Loss (Gain) on disposal of property, plant and equipment	(160)	(110)			
Unrealized gross profit on sale	31,220	43,460			
Realized (gross profit) on sale	(61,857)	(33,225)			
Bargain purchase gain	(8,563)	-			
Changes in operating assets and liabilities:			**Cash flows from financing activities:**		
(Increase) decrease in accounts receivable from related parties	(207,109)	25,210	Increase in short-term loans	3,157,007	2,625,539
(Increase) decrease in other receivable from related parties	(295,287)	(939,673)	Decrease in short-term loans	(3,425,958)	(2,525,215)
(Increase) decrease in inventories, net	(121,892)	(13,223)	Proceeds from long-term loans	1,341,000	-
(Increase) decrease in prepayments	38,780	16,784	Increase in short-term notes and bills payable	258,408	59,611
(Increase) decrease in other current assets	(8,924)	8,003	Cash dividends	(191,972)	(43,336)
(Increase) decrease in other business assets	(37,589)	(35,456)	Capital increased by cash	-	823,935
Increase (decrease) in notes payable	(1,113)	1,207	Treasury stock acquired	(180,337)	-
Increase (decrease) in accounts payable	(3,253)	(16,955)	Interest paid	(36,193)	(19,295)
Increase (decrease) in accounts payable from related parties	(810)	442	Net cash provided by financing activities	921,955	921,239
Increase (decrease) in other payables	(2,166)	6,758			
Increase (decrease) in other payables to related parties	28,330	6,147			
Increase (decrease) in provision	1,111	6,883			
Increase (decrease) in unearned receipts	-	(59,192)			
Increase (decrease) in other current liabilities	(201)	(1,688)			
Increase (decrease) in net defined benefit liabilities, noncurrent	416	(2,515)	Net increase (decrease) in cash and cash equivalents	(83,896)	101,163
Increase (decrease) in other operating liabilities	-	(170)	Cash and cash equivalents at beginning of year	206,525	105,362
Cash generated from operating activities	(375,563)	(806,083)	Cash and cash equivalents at end of year	$122,629	$206,525
Interest received	3,332	546			
Income tax paid	(68,909)	(32,453)			
Net cash provided by (used in) operating activities	(441,140)	(837,990)			

(The accompanying notes are an integral part of the parent company only financial statements.)

English Translation of Financial Statements Originally Issued in Chinese

ALEXANDER MARINE CO., LTD.

NOTE TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

For the Years Ended 31 December 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Stated)

V. ORGANIZATION AND OPERATION

1. ALEXANDER MARINE CO., LTD. (the "Company") was incorporated as a company limited by shares in Taiwan on 23 January 1978. The Company's major operating plant was located at No. 1, Jin-fu Road, Qian Zhen District, Kaohsiung, R.O.C. The Company s principal activities are the manufacture and sale of yachts.
2. The shares of the Company were listed on the Taiwan Stock Exchange on 11 December 2017.

VI. DATE AND PROCEDURES OF AUTHORIZATION OF FINANCIAL STATEMENTS FOR ISSUE

The parent company only financial statements of the company for the years ended 31 December 2018 and 2017 were authorized for issue in accordance with the resolution of the Board of Directors on 18 March 2019.

VII. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

1. Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2018. Apart from the nature and the impact of the new standard and amendment of initial application have no material effect on the Company:

(1) IFRS 15"Revenue from Contracts with Customers" (including Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers")

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. In accordance with the transition provision in IFRS 15, the Company elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (1 January 2018). The Company also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Company's principal activities consist of the sale of goods. The impacts arising from the adoption of IFRS 15 on the Company are summarized as follows:

A. Please refer to Note 4 for the accounting policies before or after 1 January 2018.

B. Before 1 January 2018, revenue from sale of goods was recognized when goods have been delivered to the buyer. Starting from 1 January 2018, in accordance with IFRS 15, the Company recognized revenue when (or as) the Company satisfies a performance obligation by transferring a promised good to a customer. IFRS 15 has no impact on the Company's revenue recognition from sale of goods. However, for some contracts, part of the consideration was received from customers upon signing the contract, then the Company has the obligation to provide the good. Before 1 January 2018, the Company recognized the consideration received in advance from customers under other current liabilities. Starting from 1 January 2018, in accordance with IFRS 15, it should be recognized as contract liabilities.

C. Please refer to Note 4 and Note 6 for additional disclosure note required by IFRS 15.

(2) IFRS 9"Financial Instruments"

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transition provision in IFRS 9, the Company elected not to restate prior periods at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Company:

A. The Company adopted IFRS 9 since 1 January 2018 and it adopted IAS 39 before 1 January 2018. Please refer to Note 4 for more details on accounting policies.

B. In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at 1 January 2018. The classifications of financial assets and its carrying amounts as at 1 January 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
At amortized cost		At amortized cost (including cash and cash equivalents(excludes cash on hand), notes receivables, trade receivables and other receivables)	
Loans and receivables (including cash and cash equivalents(excludes cash on hand), notes receivables, trade receivables and other receivables)	$1,977,019		$1,977,019

C. The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets and financial liabilities as at 1 January 2018 are as follow:

IAS 39		IFRS 9			Retained earnings	Other components of equity
Class of financial instruments	Carrying amounts	Class of financial instruments	Carrying amounts	Difference	Adjustment	Adjustment
Loans and receivable (Note)					—	—
Cash and cash equivalents (excludes cash on hands)	$206,448	Cash and cash equivalents (excludes cash on hands)	$206,448	$—	—	—
Account receivables	792,079	Accounts receivables	792,079	—	—	—
Other receivables	978,492	Other receivables	978,492	—	—	—
Total	$1,977,019	Total	$1,977,019		$—	$—

Note:
In accordance with IAS 39, the cash flow characteristics for and loans and receivables are solely payments of principal and interest on the principal amount outstanding. The assessment of the business model is based on the facts and circumstances that existed as at 1 January 2018. These financial assets were measured at amortized cost as they were held within a business model whose objective was to hold financial assets in order to collect contractual cash flows. Besides, in accordance with IFRS 9, there was no adjustment arising from the assessment of impairment losses for the aforementioned assets as at 1 January 2018. Therefore, there is no impact on the carrying amount as at 1 January 2018

D. Please refer to Note 4, Note 5, Note 6 and Note 12 for the related disclosures required by IFRS 7 and IFRS 9.

(3) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The Company originally recorded their foreign currency sales transactions based on the exchange rate on the date of revenue recognition and converted into its functional currency. The exchange difference was recognized when the foreign currency advance payment was written off. The Company elected to apply this interpretation prospectively on 1 January 2018. This change in accounting principle did not significantly impact the Company's recognition and measurement.

2. Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are recognized by FSC, but not yet adopted by the Company as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 16 "Leases"	1 January 2019
B	IFRIC 23 "Uncertainty Over Income Tax Treatments"	1 January 2019
C	IAS 28 "Investment in Associates and Joint Ventures" — Amendments to IAS 28	1 January 2019
D	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
E	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
F	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

A. IFRS 16"Leases"

The new standard requires lessees to account for all leases under one single accounting model (except for short-term or low-value asset lease exemptions), which is for lessees to recognize right-of-use assets and lease liabilities on the balance sheet and the depreciation expense and interest expense associated with those leases in the consolidated statements of comprehensive income. Besides, lessors' classification remains unchanged as operating or finance leases, but additional disclosure information is required.

B. IFRIC 23 "Uncertainty Over Income Tax Treatments"

The interpretation clarifies application of recognition and measurement requirements in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments.

C. IAS 28"Investment in Associates and Joint Ventures" — Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income.

E. Improvements to International Financial Reporting Standards (2015-2017 cycle):

IFRS 3 "Business Combinations"

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 "Joint Arrangements"

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 "Income Taxes"

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

IAS 23 "Borrowing Costs"

The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

F. Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2019. Apart from item A explained below, the remaining standards and interpretations have no material impact on the Company.

IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The impact arising from the adoption of IFRS 16 on the Company are summarized as follows:

A. For the definition of a lease, the Company elects not to reassess whether a contract is, or contains, a lease at the date of initial application (1 January 2019) in accordance with the transition provision in IFRS 16. Instead, the Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

   The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

   Leases classified as operating leases

   For leases that were classified as operating leases applying IAS 17, the Company expects to measure and recognize those leases as lease liability on 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 January 2019 and; The Company chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before 1 January 2019.

The Company expects the right-of-use asset will increase by NT$324,530 thousand and the lease liability will increase by NT$324,530 thousand on 1 January 2019.

B. The additional disclosures of lessee and lessor required by IFRS 16 will be disclosed in the relevant notes.

3. Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Company's financial statements are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
A	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
B	IFRS 17 "Insurance Contracts"	1 January 2021
C	Definition of a Business (Amendments to IFRS 3)	1 January 2020
D	Definition of Material (Amendments to IAS 1 and 8)	1 January 2020

A. IFRS 10 "Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

B. IFRS 17 "Insurance Contracts"

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(4) estimates of future cash flows;
(5) Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
(6) a risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

C. Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

D. Definition of a Material (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The abovementioned standards and interpretations have no material impact on the Company.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of Compliance

The parent company only financial statements for the years ended 31 December 2018 and 2017 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

2. Basic of Preparation

The Company prepared its parent company only financial statements in accordance with the Regulation. According to Article 21 of the Regulations, the profit or loss and other comprehensive income for the period presented in the parent company only financial reports will be the same as the allocations of profit or loss and of other comprehensive income attributable to owners of the parent presented in the consolidated financial statements for the period, and the total equity presented in the parent company only financial statements will be the same as the equity attributable to owners of the parent presented in the consolidated financial statements. Therefore, the Company accounted for its investments in subsidiaries under using equity method and, accordingly, made necessary adjustments.

The parent company only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The parent company only financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

3. Foreign currency transactions

The Company's parent company only financial statements are presented in NT$.

Transactions in foreign currencies are initially recorded by the Company entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

(1). Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

(2). Foreign currency items within the scope of IFRS 9 Financial Instruments (Before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) are accounted for based on the accounting policy for financial instruments.

(3). Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

4. Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. On the partial disposal of foreign operations that result in a loss of control, loss of significant influence or joint control but retain partial equity is considering as disposal.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

5. Current and noncurrent distinction

An asset is classified as current when:

(a) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle
(b) The Company holds the asset primarily for the purpose of trading
(c) The Company expects to realize the asset within twelve months after the reporting period; or
(d) the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is classified as current when:

(a) The Company expects to settle the liability in its normal operating cycle.
(b) The Company holds the liability primarily for the purpose of trading.
(c) The liability is due to be settled within twelve months after the reporting period.
(d) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as noncurrent.

6. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 3 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Financial instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 Financial Instruments (Before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(1)Financial instruments: Recognition and Measurement

The accounting policy from 1 January 2018 as follow:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

A. the Company's business model for managing the financial assets and
B. the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

A. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
B. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

A. purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
B. financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

The accounting policy before 1 January 2018 as follow:

The Company accounts for regular way purchase or sales of financial assets on the trade date.

Financial assets of the Company are classified as financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The Company determines the classification of its financial assets at initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

(2) Impairment of financial assets

The accounting policy from 1 January 2018 as follow:

The Company recognizes a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

The Company measures expected credit losses of a financial instrument in a way that reflects:

A. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

B. the time value of money; and

C. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

A. At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.

B. At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.

C. For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

<u>The accounting policy before 1 January 2018 as follow:</u>

The Company assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

Other loss events include:

A. significant financial difficulty of the issuer or obligor

B. a breach of contract, such as a default or delinquency in interest or principal payments; or

C. it becoming probable that the borrower will enter bankruptcy or other financial reorganization

D. the disappearance of an active market for that financial asset because of financial difficulties.

For held-to-maturity financial assets and loans and receivables measured at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial asset that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Interest income is accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

(3) Derecognition of financial liabilities

A financial liability is derecognized when:

A. The rights to receive cash flows from the asset have expired
B. The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
C. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(4) Financial liabilities and equity

Classification between liabilities or equity

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments (before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(5) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

8. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(1) In the principal market for the asset or liability, or
(2) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

9. Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:
Raw materials – Purchase cost on a first in, first out basis
Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Starting from 1 January 2018, rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

10. Investments accounted for using the equity method

The Company's investment in subsidiaries is based on Article 21 of the Guidelines for the preparation of financial reports of securities issuers. Using the investment of equity law "to express and adjust the necessary evaluation, so that the current profit and loss of individual financial reporting and other consolidated gains and losses in the financial report of the consolidated basis are the same as the share of the parent company, and the equity of the owner of the individual financial report belongs to the owner of the parent company in the financial report of the Consolidated Foundation. ◦ These adjustments mainly take into account the differences in the application of international Financial Reporting standards by investment subsidiaries in the consolidated financial statements in accordance with IFRS 10th "consolidated financial statements" and the different reporting individual levels, and debit or credit "investments using equity laws", "subsidiaries recognized by the use of equity laws, Shares of Associated Enterprises and joint venture gains and losses "or" subsidiaries, affiliates and other combined profit and loss shares recognized by the Equity Act.

The Company’s investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company’s share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company’s related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro-rata basis.

When the associate or joint venture issues new stock, and the Company's interest in an associate or a joint venture is reduced or increased as the Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures (before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement). If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Company estimates:

(3) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
(4) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, 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 entity continues to apply the equity method and does not remeasure the retained interest.

11. Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 Property, plant and equipment. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

Buildings	5～50 years
Machinery and equipment	8～10 years
Transportation equipment	5 years
Office equipment	3～5 years
Miscellaneous equipment	3～15 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

12. Leases

The Company as a lessee

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

The Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

13. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

The Company's intangible assets accounting policies are as follows:

	Software
Useful life	Limited useful life of 5 years
Amortization methods	Straight-line method
Internally generated or outside acquisition	Outside Acquisition

14. Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 Impairment of Assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

15. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

The liability is recognized progressively if the obligating event occurs over a period of time.

Maintenance warranties

A provision is recognized for expected warranty claims on products sold, based on past experience, management's judgement and other known factors.

16. Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

17. Revenue recognition

The accounting policy from 1 January 2018 as follow:

The Company's revenue arising from contracts with customers are primarily related to sale of goods. The accounting policies are explained as follow:

Sale of goods

The Company manufactures and sells yachts. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Company is high-end yachts and revenue is recognized based on the consideration stated in the contract.

The Company provides its customer with a warranty with the purchase of the products. The warranty provides assurance that the product will operate as expected by the customers. And the warranty is accounted in accordance with IAS 37.

The credit period of the Company's sale of goods is 180 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

For some of the contracts, the consideration was received from customers upon signing the contract, and the Company has the obligation to provide the goods; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component arose.

The accounting policy before 1 January 2018 as follows:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognized:

Sales of yachts

The buyers of the Company's yacht sales agreements can only influence the design of the yachts in a limited capacity, or can specify only minor changes to the basic design. In accordance with IFRIC 15, the Group's yachts sales agreements are within the scope of IAS 18 "Revenue"

Revenue from sales of yachts is recognized when the Company has transferred to the buyer the significant risks and rewards and the ownership of the goods, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable.

Deposits received on yachts sold prior to the date of revenue recognition are included in the consolidated balance sheet as advanced proceeds received from customers under current liabilities.

Sales of goods

Revenue from sale of goods is recognized when all the following conditions have been satisfied: the significant risks and rewards of ownership of the goods have transferred to the buyer; neither continuing managerial involvement nor effective control over the goods sold have been retained; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

For financial assets measured at amortized cost (include held-to-maturity financial assets) and financial assets at fair value through profit or loss, interest income is recorded using the effective interest rate and recognized in profit or loss.

18. Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

19. Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account which is not associated with the Company and its domestic subsidiaries; therefore fund assets are not included in the Company's consolidated financial statements. Pension plan of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

(1) the date of the plan amendment or curtailment, and
(2) the date that the Company recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

20. Share-based payment transactions

The cost of equity-settled transactions between the Company is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in other capital reserves in equity, over the vesting period. The Company recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

The grant date of the Company share-based payment is on the date, when both the Company and its employees reaches a consensus of the subscription price and amount of shares to be acquired.

21. Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

<u>Current income tax</u>
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(1)Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

(2)In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

(1)Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

(2)In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

22. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Company acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 Financial Instruments (before 1 January 2018: IAS 39 Financial Instruments: Recognition and Measurement) either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

VII. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources for estimating uncertainty at the reporting date that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(6) Pension benefits

The cost of post-employment benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. The assumptions used for measuring pension cost and the present value of the pension obligation are disclosed in Note 6.

(7) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6.

(8) Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgment and estimate to determine the net realizable value of inventory at the end of each reporting period. The inventory evaluation is mainly based on historical experience such as inventory characteristics and referred to market prices as the basis for estimation, please refer to Note 6.

(9) Income Tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. Please refer to Note 6 for more details on the Company unrecognized deferred tax assets as of 31 December 2018.

(10) Accounts receivables-estimation of impairment loss

Starting from 1 January 2018

The Company estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

Before 1 January 2018

The Company considers the estimation of future cash flows when there is objective evidence showed indications of impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. However, as the impact from the discounting of short-term receivables is not material, the impairment of short-term receivables is measured as the difference between the asset's carrying amount and the estimated undiscounted future cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

VIII. CONTENTS OF SIGNIFICANT ACCOUNTS

1. Cash and cash equivalents

	31 Dec. 2018	31 Dec. 2017
Cash on hand	$47	$77
Saving account	122,582	206,448
Total	$122,629	$206,525

2. Account receivables-related parties, net

	31 Dec. 2018	31 Dec. 2017
Account receivables from related parties	$999,188	$792,079
Less: loss allowance	-	-
Total	$999,188	$792,079

Accounts receivable were not pledged.

Account receivables are generally on 180 day terms. The Company adopted IFRS 9 for impairment assessment since 1 January 2018. Please refer to Note 6 for more details on impairment of trade receivables. The Company adopted IAS 39 for impairment assessment before 1 January 2018. The movements in the provision for impairment of trade receivables-related parties for the year ended 31 December 2017 are as follows: (Please refer to Note 12 for more details on credit risk management.)

	Individually impaired loss	Collectively impaired	Total
1 Jan. 2017	$-	$-	$-
Charge (reverse) for the year	-	-	-
Write-off for uncollectable accounts	-	-	-
Exchange differences	-	-	-
31 Dec. 2017	$-	$-	$-

The past due account aging analysis of net account receivables-related parties is as follows:

		Past due but not impaired				
As of	Neither past due nor impaired	1-31 days	31-60 days	61~90 days	Over 91 days	Total
31 Dec. 2017	$792,079	-	-	-	-	$792,079

3. Inventories, net

	31 Dec. 2018	31 Dec. 2017
Raw materials	$141,026	$127,919
Work in process	848,159	736,291
Finished goods	2,266	1,934
Materials in transit	20,219	23,634
Net	$1,011,670	$889,778

The cost of inventories recognized in expenses amounted to NT$1,232,433 thousand and NT$1,332,941 thousand for the years ended 31 December 2018 and 2017, respectively, including the reversal of write-down of inventories in the amount of NT$3 thousand and NT$22 thousand, respectively.

The circumstances that caused the net realizable value of inventory to be lower than its cost no longer existed. As a result, the Company recognized the gain on reversal.

Inventories were not pledged.

4. Investments accounted for under the equity method

Details are as follows:

Investee Company	31 Dec. 2018		31 Dec. 2017	
	Amount	Percentage of ownership	Amount	Percentage of ownership
ROCS MARINE INDUSTRY CORPORATION. (ROCS MARINE)	$313,926	100%	$21,847	10%
Alexander Marine International Co., Limited (AMI)	1,856,117	100%	569,935	100%
	$2,170,043		$591,782	

(2) The Company invested in ROCS MARINE, and acquired 10% ownership interest. The Company accounts for its investment in ROCS MARINE as an associate given the fact that the Company is able to exercise significant control over ROCS MARINE through representation on its board of directors. As a result, the investment was an investment in an associate accounted for under the equity method.

(3) ROCS MARINE capital reduction by returning fund was approved at the shareholders' meeting on 23 June 2017, and received the returned fund in August 2017.

(4) The Company's investments in said associates are not individually material. The related share of investment from the associates amounted to NT$21,847 thousand for the year ended 31 December 2017. The aggregate financial information of the Company's investments in associates is as follows:

	2017
Profit or loss from continuing operations	$410
Other comprehensive income (post-tax)	-
Total comprehensive income	$410

(5) The Company acquired the common shares of ROCS MARINE from November to December in 2018. In the first stage the shareholding percentage increased from 10% to 90% and the second stage the shareholding precentage increased to 100%. The acquired amount per share was about NT$461, the total amount of the purchase price was NT$281,155 thousand. The acquisition was completed in December 2018, with 100% ownership.

The associates had no contingent liabilities or capital commitments as at 31 December 2017.

5. Property, plant and equipment

	Land	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Other facilities	Construction in progress	Total
Cost:								
1 Jan. 2018	$342,678	$206,953	$118,902	$10,698	$2,593	$5,923	$9,667	$697,414
Additions	-	-	300	-	-	1,550	53,193	55,043
Disposals	-	-	(815)	(2,379)	(57)	-	-	(3,251)
31 Dec. 2018	$342,678	$206,953	$118,387	$8,319	$2,536	$7,473	$62,860	$749,206
1 Jan. 2017	$342,678	$206,720	$96,215	$10,698	$2,404	$5,313	$9,667	$673,695
Additions	-	233	526	-	189	610	-	1,558
Disposals	-	-	(4,884)	-	-	-	-	(4,884)
Transfers	-	-	27,045	-	-	-	-	27,045
31 Dec. 2017	$342,678	$206,953	$118,902	$10,698	$2,593	$5,923	$9,667	$697,414
Depreciation and impairment:								
1 Jan. 2018	$-	$56,543	$52,154	$6,079	$1,338	$3,190	$-	$119,304
Depreciation	-	4,739	10,230	1,392	322	557	-	17,240
Disposals	-	-	(815)	(1,671)	(57)	-	-	(2,543)
31 Dec. 2018	$-	$61,282	$61,569	$5,800	$1,603	$3,747	$-	$134,001
1 Jan. 2017	$-	$51,816	$48,995	$4,389	$986	$2,633	$-	$108,819
Depreciation	-	4,727	8,043	1,690	352	557	-	15,369
Disposals	-	-	(4,884)	-	-	-	-	(4,884)
31 Dec. 2017	$-	$56,543	$52,154	$6,079	$1,338	$3,190	$-	$119,304
Net book value:								
31 Dec. 2018	$342,678	$145,671	$56,818	$2,519	$933	$3,726	$62,860	$615,205
31 Dec. 2017	$342,678	$150,410	$66,748	$4,619	$1,255	$2,733	$9,667	$578,110

(3) No interest capitalization for the years ended 31 December 2018 and 2017.

(2) Please refer to Note 8 for more details on property, plant and equipment under pledge.

6. Intangible assets

	Computer software
Cost:	
As at 1 Jan. 2018	$7,436
Addition-acquired separately	1,464
As at 31 Dec. 2018	$8,900
As at 1 Jan. 2017	$5,963
Addition-acquired separately	1,473
As at 31 Dec. 2017	$7,436
Amortization and impairment:	
As at 1 Jan. 2018	$4,401
Amortization	1,009
As at 31 Dec. 2018	$5,410
As at 1 Jan. 2017	$3,633
Amortization	768
As at 31 Dec. 2017	$4,401
Net carrying amount as at:	
31 Dec. 2018	$3,490
31 Dec. 2017	$3,035

Net carrying amount as of:

	31 Dec. 2018	31 Dec. 2017
Operating Costs	$830	$581
Administrative expenses	179	187
Total	$1,009	$768

7. Other non-current assets

	31 Dec. 2018	31 Dec. 2017
Refundable deposits	$5,797	$3,437
Advance payments in equipment	41,516	5,885
Other current assets-other	-	402
Total	$47,313	$9,724

8. Short-term loans

	Interest rate range	31 Dec. 2018	31 Dec. 2017
Secured Loans	1.1628%~1.625%	$-	$379,632
Unsecured Loans	0.4034%~4.492%	784,357	673,676
Total		$784,357	$1,053,308

The Company's unused short-term lines of credits amounted to NT$421,206 thousand and NT$693,155 thousand as at 31 December 2018 and 2017, respectively.

Please refer to Note 8 for the detail of the assets pledged as collateral.

9. Short-term notes and bills payable

Item	Guarantee Institution	31 Dec. 2018	31 Dec. 2017
Commercial paper payable	International Bills Finance Corp., Mega Bills Finance Co., Ltd.	$320,000	$60,000
Less：Discount on commercial papers payable		(351)	(326)
Net		$319,649	$59,674
Interest rate range		0.657%~1,342%	0.96%

Short-term notes and bills payable were not pledged.

10. Long-term loans

Details of long-term loans on 31 December, 2018 are as follows:

Lenders	As at 31 Dec. 2018	Interest Rate (%)	Maturity date and terms of repayment
The Export-Import Bank of the Republic of China unsecured bank loans	$146,000	1.468%	Repayable every six months from April 4, 2020 to April 4, 2024 with monthly interest payments.
Chang Hwa Bank secured bank loans	1,020,000	1.7895%	Repayable every six months from October 25, 2020 to April 25, 2024 with monthly interest payments.
Chang Hwa Bank secured bank loans	175,000	1.7895%	Repayable every six months from November 25, 2020 to May 25, 2024 with monthly interest payments.
Less: current portion	-		
Administrative expenses from Syndicated loans (Note)	(10,784)		
Total	$1,330,216		

Note: The hosting and participation fee for Chang Hwa Commercial Bank and other 10 banks syndicated medium and long-term secured loans with line of credit in the amount of NT$3,200,000 thousand. The syndicated loan included: A. Repayment of loans from existing financial institutions: NT$1,020,000 thousand. B. Purchase of Rocs Marine shares: NT$200,000 thousand. C. Purchase of property and equipment: NT$300,000 thousand. D. Purchase of working capital: NT$990,000 thousand. E. Medium term operating working capital: NT$300,000 thousand. F. Medium term operating working capital: NT$390,000 thousand.

(1) The pledged for long-term loans, please refer to Note 8 for more details.

(2) For the agreements with the above banks regarding financial ratio limits during the credit period, please refer to Note 9 for more details.

11. Post-Employment Benefits

Defined contribution plan

The Company adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended 31 December 2018 and 2017 were NT$12,376 thousand and NT$11,896 thousand, respectively.

Defined benefits plan

The employee pension plan mandated by the Labor Standards Act of the R.O.C. is a defined benefit plan. The pension benefits are disbursed based on the units of service years and the average salary in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 4.2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited with the Bank of Taiwan under the name of an administered pension fund committee. Before the end of each year, the Company will estimate the aforementioned Labor Pension reserve accounts balance. If the balance is insufficient for the estimated payments to employees meeting the conditions of receiving labor pension within the following year, the Company will set aside the shortfall in full by end of March in the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under a mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT$239 thousand to its defined benefit plan for the following 12 months as of 31 December 2018.

The durations of defined benefit obligation for the years ended 31 December 2018 and 2017 will both expire in 8 years.

Pension costs recognized in profit or loss are as follows:

	2018	2017
Current service cost	$531	$747
Net interest on the net defined benefit liabilities	123	212
Total	$654	$959

Reconciliations of liabilities (assets) of the defined benefit obligation and plan assets at fair value are as follows:

	31 Dec. 2018	31 Dec. 2017	1 Jan. 2017
Defined benefit obligation	$33,922	$34,223	$38,104
Plan assets at fair value	(18,319)	(22,693)	(20,413)
Net defined benefit liabilities	$15,603	$11,530	$17,691

Reconciliations of liabilities (assets) of the defined benefit plan are as follows:

	Defined benefit obligation	Plan assets At fair value	Net defined benefit liabilities (assets)
As of 1 January 2017	$38,104	$(20,413)	$17,691
Current service cost	747	-	747
Interest expense (income)	457	(245)	212
Subtotal	39,308	(20,658)	18,650
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(325)	-	(325)
Actuarial gains and losses arising from changes in financial assumptions	345	-	345
Experience adjustments	(3,790)	-	(3,790)
Remeasurements of the defined benefit assets	-	123	123
Subtotal	(3,770)	123	(3,647)
Payments of benefit obligation	(1,315)	1,315	-
Contribution by employer	-	(3,473)	(3,473)
As of 31 December 2017	$34,223	$(22,693)	$11,530
Current service cost	531	-	531
Interest expense (income)	366	(243)	123
Subtotal	35,120	(22,936)	12,184
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	129	-	129
Actuarial gains and losses arising from changes in financial assumptions	559	-	559
Experience adjustments	3,534	-	3,534
Remeasurements of the defined benefit assets	-	(564)	(564)
Subtotal	4,222	(564)	3,658
Payment of benefit obligation	(5,420)	5,420	-
Contribution by employer	-	(239)	(239)
As of 31 December 2018	$33,922	$(18,319)	$15,603

The principal underlying actuarial assumptions are as follows:

	31 Dec. 2018	31 Dec. 2017
Discount Rate	0.84%	1.07%
Rate of future salary Increase	1.00%	1.00%

Sensitivity analysis of each major actuarial assumption:

	2018		2017	
	Defined benefit obligations increase	Defined benefit obligations decrease	Defined benefit obligations increase	Defined benefit obligations decrease
Discount Rate increase 0.5%	$-	$1,194	$-	$1,268
Discount Rate decrease 0.5%	1,495	-	1,394	-
Future salary increase 0.5%	1,482	-	1,388	-
Future salary decrease 0.5%	-	1,198	-	1,275

The sensitivity analysis above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analysis compared to the previous period.

12. Provisions, current

	Maintenance warranties
As at 1 Jan. 2018	$13,631
Additions during the period	20,399
Used during the period	(19,288)
As at 31 Dec. 2018	$14,742

	Maintenance warranties
As at 1 Jan. 2017	$6,748
Additions during the period	23,018
Used during the period	(16,135)
As at 31 Dec. 2017	$13,631

A provision is recognized for expected warranty claims on products sold, based on past experience, management's judgement and other known factors.

13. Equity

(1) Common stock

The Company's authorized capital was NT$1,000,000 thousand and issued NT$930,623 thousand and NT$945,673 thousand with 93,062 thousand shares and 94,567 thousand shares as at 31 December 2018 and 31 December 2017, respectively, each at a par value of NT$10. Each share has one voting right and a right to receive dividends.

On 28 April 2017, a proposal for issuing new shares amounting to NT$173,344 thousand through capitalization of earnings was approved at the shareholders' meeting, with 17,334 thousand shares at a par value of NT$10. On 26 May 2017, the board of directors adopted the resolution and the base date was 4 July 2017. The change of registration was completed upon the approval of the competent authority.

On 25 October 2017, the board of directors resolved to issue common shares through cash increase, which was issued at premium, and the weighted average auction price was NT$80.2 per share, the public subscription offering price was NT$72.8 per share. The case was approved by the competent authority and the chairman of the board set the base date of capital increase on 7 December 2017, and the change of registration was completed.

The Company issued restricted stocks for employees in 2018 in the amount of NT$4,990 thousand, which was 499 thousand shares in total. The Company issued restricted stocks for employees in 2017 in the amount of NT$120 thousand, which was 12 thousand shares in total.

In 2018, the Company had employees holding restricted shares resigned. Therefore, according to the issuance method, the Company would take back without compensation and cancel 29 thousand shares at NT$10 per share, of which 17 shares have not changed registration yet.

The board agreed that the Company cancelled the first purchase common stocks in a total of 1,992 thousand shares in August 2018, and the change of registration was completed.

(2) Capital surplus

	31 Dec. 2018	31 Dec. 2017
Additional paid-in capital	$1,075,417	$1,098,435
The differences between the fair value of the consideration paid or received from acquiring or disposing subsidiaries and the carrying amounts of the subsidiaries	(68,938)	(68,938)
Restricted stocks for employee	29,591	18,509
Expired stock options	5,248	5,248
Total	$1,041,318	$1,053,254

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

(3) Treasury stock

The Company repurchased treasury stock in the amount of NT$180,337 thousand in 2018, and the number of treasury stock held by the Company was 3,355 thousand. The treasury stock repurchase was to maintain the Company's credit and shareholders' equity.

In August 2018, the Company retired the first repurchased common stock in 2018 that were total 1,992 thousand shares.

(4) Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

a. Pay all taxes and dues
b. Offset prior years' operation losses
c. Set aside 10% of the remaining amount as legal reserve
d. Set aside or reverse special reserve in accordance with law and regulations
e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting

The policy of dividend distribution should reflect factors such as the current and future development plan, investment environment, fund requirements, domestic and international competition as well as the interest of the shareholders and share bonus equilibrium, and the cash dividend issued shall be higher than 10% of the total dividends.

According to Taiwan Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal reserve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

Following the adoption of TIFRS, the FSC on 6 April 2012 issued order, which sets out the following provisions for compliance. On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gain and cumulative translation adjustments (gains) recorded to shareholders' equity that the Company elects to transfer to retained earnings by application of the exemption under IFRS 1, the Company shall set aside an equal amount of special reserve. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity.

The Company has set aside special reserve of NT$5,593 thousand to retained earnings for the first time adoption of TIFRS during the years ended 31 December 2018 and 2017.

Details of the 2018 and 2017 earnings distribution and dividends per share as approved and resolved by the board of directors' meeting and shareholders' meeting on 18 March 2019 and 29 June 2018, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT$)	
	2018	2017	2018	2017
Legal reserve	$35,875	$27,400		
Cash dividend	181,877	191,972	$2	$2.07
Special reserve	(29,825)	34,031		
Total	$187,927	$253,403		

The Company's cash dividends in 2017 were affected because of recovered restricted new shares for employees exercising options and repurchasing treasury stock. Therefore, the Company adjusted the shareholder's dividend per share to NT$2.06691573 dollars.

Please refer to Note 6.18 for further details on employees' compensation and remuneration to directors and supervisors.

14. Share-based payment plans

Employees of the Company are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

(1) Share-based payment plan for employees of the company

On 25 October 2017, the Company, in pursuance of the resolution adopted by the board of directors, conducted the pre-initial public offering public underwriting capital increase by cash and issued 10,550 thousand shares. A total of 1,055 thousand shares of new stocks were retained for employees to subscribe to. The base date of employee stock option was 7 December 2017, and the change of registration was completed.

The relevant details of the aforementioned share-based payment plan are as follows:

Date of grant	Total number of share options granted (in thousands)	Exercise price of share options (NT$)
2017.11.27	1,055	$72.8

The inputs to the pricing model and assumptions used for the share-based payment plan are as follows:

	Cash increase of employee stock option retained
Dividend yield (%)	-
Expected volatility (%)	37.5
Risk-free interest rate (%)	0.32
Expected option life (Years)	0.03
Weighted average share price ($)	80.2
Option pricing model	Binomial option pricing model

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The expense recognized for share-based payment plan for employees are as follows:

	2018	2017
Total expense arising from equity-settled share-based payment transactions (all equity-settled share-based payment)	$-	$7,944

As of 2017, no cancellation or modification was made to the Company's share-based payment plan of.

(2) Restricted shares plan for employees

The board of directors resolved on 12 August 2016 to issue 182 units, 12 units of restricted shares for employees . On 28 April 2017, the board resolved to issue 315 units of restricted shares for employees. On 7 May 2018 and 13 August 2018, the board resolved to issue 184 units of restricted shares for employees. Each unit equals 1,000 common shares therefore the above units issued amounted to 182,000 shares, 12,000 shares, 315,000 shares and 184,000 shares through bonus shares. When employees meet both service seniority and performance requirements during the vesting period, they will be granted the new restricted shares based on fixed schedules and percentages.

During the vesting period, restriction on the rights for employees is as follows:

A. During the vesting period, employees may not sell, pledge, transfer, give to another person, create any encumbrance on, or otherwise dispose of, the restricted employee shares, except for inheritance.

B. The attendance, proposals, speeches, votes and right to elect at the shareholders' meeting are made pursuant to the security trust contract.

C. Before the employees meeting the vesting conditions, except for being not entitled to subscribing to new shares, the other rights of employees' restricted share plan are the same as the common shares issued by the Company. However, the dividends and bonuses shall also be deposited in a trust account.

In cases of any voluntary resignation, retirement and layoff of employees, the employees' restricted share options not yet meeting vesting conditions shall be deemed failing to meet vesting conditions from the effective date. The Company shall reclaim the shares without making any additional compensation to the employees and retire those shares.

In 2018, the Company had employees with restricted shares resigned. Therefore, according to the issuance method, the Company would take back without compensation and cancel 29 thousand shares at NT$10 per share, of which 17 shares have not changed registeration yet. Please refer to Note 6.13(1).

Information of the restricted share employee as of 31 December 2018 as follows:

Type	Grant date	Issued shares (thousands of shares)	Exercise price	Par fair value	Restricted Shares (thousands of shares)
The new restricted shares for employee	2016.09.21	182	$-	$153	71
The new restricted shares for employee	2017.06.12	12	$-	$140.2	8
The new restricted shares for employee	2018.05.30	315	$-	$57	301
The new restricted shares for employee	2018.08.28	184	$-	$47.2	174

The restricted shares granted to employees were measured at fair value, which resulted in a compensation expense amounted to NT$10,373 thousand and NT$10,311 thousand in 2018 and 2017, respectively. As of 31 December 2018 and 31 December 2017, balances of capital reserve-employee restricted shares and capital reserve-unearned employees' compensation were NT$29,591 thousand and NT$12,559 thousand, and balances of capital reserve-employee restricted shares and capital reserve-unearned employees' compensation were NT$18,509 thousand and NT$6,872 thousand, respectively.

15. Sales Revenue

	2018	2017
Revenue from contracts with customers		
Sales－Yachts	$1,477,245	$1,681,491
Other revenue	26,670	39,649
Total	$1,503,915	$1,721,140

Note: The Company has adopted IFRS 15 from 1 January 2018. The Company elected to apply the standard retrospectively by recognizing the cumulative effect of initially applying the standard at the date of initial application (1 January 2018).

The Company has adopted IFRS 15 from 1 January 2018. Analysis of revenue from contracts with customers during the year is as follows:

Disaggregation of revenue

	2018
Sale of goods	$1,477,245
Other operating income	26,670
Total	$1,503,915

Timing of revenue recognition :	
At a point in time	$1,503,915

16. Expected credit losses (gains)

	2018	2017 (note)
Operating expenses – Expected credit losses/(gains)		
Account receivables	$-	

Note: The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.

Please refer to Note 12 for more details on credit risk.

The Company measures trade receivables at an amount equal to lifetime expected credit losses.

		Overdue				
	Not yet due	1-30 days	31-60 days	61-90 days	>=91 days	Total
Account receivables gross carrying amount	$999,188	$-	$-	$-	$-	$999,188
Loss ratio	0%	0%	0%	0%	0%	
Lifetime expected credit losses	-	-	-	-	-	-
Carrying amount	$999,188	$-	$-	$-	$-	$999,188

The movement in the provision for impairment of account receivables-related parties during 2018 is as follows:

	Account receivables-related parties
Beginning balance (in accordance with IAS 39)	$-
Transition adjustment to retained earnings	-
Beginning balance (in accordance with IFRS 9)	-
Addition/(reversal) for the current period	-
Ending balance (2017: in accordance with IAS 39)	$-

17. Operating leases

Operating lease commitments - Company as lessee

The Company has entered into commercial leases on property. These leases have an average life of 2 to 10 years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2018 and 2017 are as follows:

	31 Dec. 2018	31 Dec. 2017
Not later than one year	$48,839	$33,551
Later than one year and not later than five years	180,752	156,522
Later than five years	167,690	208,884
Total	$397,281	$398,957

Operating lease expenses recognized are as follows:

	2018	2017
Minimum lease payments	$36,671	$8,095

18. Summary statement of employee benefits for the years ended 31 December 2018 and 2017, depreciation and amortization expenses by function:

Function / Character	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Salaries	$268,243	$43,310	$311,553	$247,710	$57,659	$305,369
Labor and health insurances	23,729	2,105	25,834	23,183	1,929	25,112
Pensions	11,784	1,246	13,030	11,686	1,169	12,855
Director's remuneration	-	1,839	1,839	-	1,772	1,772
Other employee benefits expense	1,031	51	1,082	1,015	52	1,067
Depreciation	15,880	1,360	17,240	14,035	1,334	15,369
Amortization	830	179	1,009	581	187	768

The total number of employees was 432 and 416 as of December 31, 2018 and 2017, respectively, of which there were 5 and 6 non-employee directors, respectively.

According to the Articles of Incorporation of the Company, no less than 1% profit of the current year is distributable as employees' compensation. The Company may distribute the profit as employees' compensation in the form of shares or cash, and no more than 5% profit of the current year is distributable as remuneration to directors and supervisors. In addition, the report of such distribution shall be submitted to the shareholders' meeting. However, the Company's accumulated losses shall have been made up for. The aforementioned employees' compensation may be made in the form of stocks or cash, which shall be determined by a resolution adopted by a majority vote at a board of directors' meeting attended by two thirds or more of the directors and be reported at a shareholders' meeting. Information on the board of directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit of 2018, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended 31 December 2018 to be 3.73% of profit (or NT$15,127 thousand) and 0% of profit (or NT$0), respectively, which are recognized as salaries expense. On 18 March 2019 the board of directors resolved to distribute the employees' compensation and remuneration to directors and supervisors in cash in the amount of NT$15,126 thousand and NT$0, respectively. The difrerence of NT$1 thousand is not material so it was not recogniezed in profit or loss of 2019.

On 30 March 2018, the board of directors resolved to distribute NT$15,635 thousand and NT$0 in cash as employees' compensation and remuneration to directors and supervisors, respectively. No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December 2017.

19. Non-operating income and expenses

(1) Other income

	2018	2017
Rent income	$280	$273
Interest income	3,332	546
Other income	9,751	14,910
Total	$13,363	$15,729

(2) Other gains and losses

	2018	2017
Gain (Loss) on disposal of property, plant and equipment	$160	$110
Gains (losses) on disposal of investments	7,833	-
Foreign exchange gain (loss) - net	60,484	(80,051)
Other expenditure	(1)	(143)
Total	$68,476	$(80,084)

(3) Finance costs

	2018	2017
Interest on borrowings from bank	$(25,422)	$(19,738)
Amortization of discount on short-term notes and bills payable	(1,504)	(68)
Total	$(26,926)	$(19,806)

20. Components of other comprehensive income

Components of other comprehensive income as of 2018 are as follows:

	Arising during the period	Tax Benefit (Expense)	Net of Tax
Not to be reclassified to profit or loss in subsequently periods:			
Remeasurements of defined benefit plan	$(3,657)	$731	$(2,926)
To be reclassified to profit or loss in subsequently periods:			
Exchange differences resulting from translating of foreign operations	35,513	-	35,513
Total	$31,856	$731	$32,587

Components of other comprehensive income as of 2017 are as follows:

	Arising during the period	Tax Benefit (Expense)	Net of Tax
Not to be reclassified to profit or loss in subsequently periods:			
Remeasurements of the defined benefit pension plan	$3,646	$(619)	$3,027
To be reclassified to profit or loss in subsequently periods:			
Exchange differences resulting from translating of foreign operations	(43,340)	380	(42,960)
Total	$(39,694)	$(239)	$(39,933)

21. Income Tax

Based on the amendments to the Income Tax Act announced on 7 February 2018, the Company's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

The major components of income tax expense are as follows:

Income tax recorded in profit or loss

	2018	2017
Current income tax expense (benefit):		
Current income tax charge	$18,743	$63,129
Adjustments in respect of current income tax of prior periods	(23)	47
Deferred income tax expense (benefit):		
Deferred income tax expense (benefit) related to origination and reversal of temporary differences	18,301	(12,968)
Deferred income tax related to changes in tax rates	(4,838)	-
Total Income tax expense (income)	$32,183	$50,208

Income tax relating to components of other comprehensive income

	2018	2017
Deferred income tax expense (benefit):		
Gain (loss) from defined benefit plan	$(731)	$619
Exchange differences on translation of foreign operations	-	(380)
Income tax relating to components of other comprehensive income	$(731)	$239

A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rate is as follows:

	2018	2017
Accounting profit before tax from continuing operations	$390,938	$324,206
Using related country's statutory income tax rate	$78,188	$55,115
Tax effect of expenses not deductible for tax purposes	(35,475)	(32,070)
Tax effect of deferred tax assets/liabilities	(12,869)	96
10% surtax on undistributed retained earnings	2,362	27,020
Adjustments in respect of current income tax of prior periods	(23)	47
Total income tax expenses recognized in profit or loss	$32,183	$50,208

Significant components of deferred income tax assets and liabilities are as follows:

	As of 1 Jan. 2018	Recognized in income	Recognized in other comprehensive income	As of 31 Dec. 2018
Temporary differences				
Unrealized exchange (gain) loss	$7,348	$(11,103)	$-	$(3,755)
Net defined benefit liabilities, noncurrent	1,955	428	731	3,114
Other	18,114	(2,787)	-	15,327
Provision for land value increment tax	(8,411)	-	-	(8,411)
Deferred income tax (Expenses)		$(13,462)	$731	
Deferred tax assets and Liability Net	$19,006			$6,275
As presented on the financial statement:				
Deferred tax assets	$27,417			$18,441
Deferred tax liabilities	$(8,411)			$(12,166)

	As of 1 Jan. 2017	Recognized in income	Recognized in other comprehensive income	As of 31 Dec. 2017
Temporary differences				
Unrealized exchange (gain) loss	$(2,939)	$10,287	$-	$7,348
Exchange differences on translation of foreign operations	(380)	-	380	-
Net defined benefit liabilities, noncurrent	3,001	(427)	(619)	1,955
Other	15,006	3,108	-	18,114
Provision for land value increment tax	(8,411)	-	-	(8,411)
Deferred income tax (Expenses)		$12,968	$(239)	
Deferred tax assets and Liability Net	$6,277			$19,006
As presented on the financial statement:				
Deferred tax assets	$18,007			$27,417
Deferred tax liabilities	$(11,730)			$(8,411)

Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Company did not recognize deferred income tax liabilities, which was related to income tax payable that may arise from undistributed earnings from foreign subsidiaries. The Company has decided not to allocate the undistributed earnings of its subsidiaries for the foreseeable future. As of December 31, 2018 and 2017, the total amount of taxable temporary differences not recognized as deferred income tax liabilities amounted to NT$177,284 thousand and NT$121,295 thousand, respectively.

The assessment of income tax returns:

As of 31 December 2018, the Company applied income tax as follows:

	The assessment of income tax returns
The Company	Assessed and approved up to 2016

22. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for interest on the convertible bonds payable) by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	2018	2017
(1) Basic earnings per share		
Net income (in thousands)	$358,755	$273,998
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	93,237	84,561
Basic earnings per share (NT$)	$3.85	$3.24
(2) Diluted earnings per share		
Net income (in thousands)	$358,755	$273,998
Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands)	93,237	84,561
Effect of dilution:		
Employee bonus－stock (in thousands)	415	206
Restricted stocks for employee	239	106
Weighted average number of ordinary shares outstanding after dilution (in thousands)	$93,891	$84,873
Diluted earnings per share (NT$)	$3.82	$3.23

From the report date to the day the financial statement was published, no other significant transactions affected the outstanding common shares or potential ordinary shares.

VII. RELATED PARTIES TRANSACTIONS

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

Name and nature of relationship of the related parties

Name of the related parties	Nature of relationship of the related parties
Rocs Marine Industry Corporation.	Subsidiary
Alexander Marine International Co., Limited (AMI)	Subsidiary
Alexander Marine USA Inc. (AMUSA)	Subsidiary
Merritt Island Boat Works, Inc. (MIBW)	Subsidiary
Alexander Marine Australia Pty Ltd (AMA)	Subsidiary
Pacific Coast Yachting Service, Inc. (PCYS)	Subsidiary
Alexander Marine Enterprises Inc. (AME)	Subsidiary
East Coast Yacht Group Inc. (ECYG)	Subsidiary
Johnny Chueh and other management	Management of the Company
Anna Chueh	Other related parties

Significant transactions with the related parties

1. Sales

	2018	2017
AMI	$1,477,245	$1,681,554
AMUSA	70	1,976
MIBW	25,364	37,610
PCYS	1,236	-
Total	$1,503,915	$1,721,140

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for sales to related parties was month-end 6 months.

2. Purchases

	2018	2017
MIBW	$124,907	$89,121

The purchase price to the above related parties was determined through mutual agreement based on the market rates. The payment terms from the related party suppliers was month-end 6 months.

3. Account receivable from related parties

	2018.12.31	2017.12.31
AMI	$995,852	$779,199
AMUSA	-	208
MIBW	2,921	12,672
PCYS	415	-
Total	$999,188	$792,079

4. Other receivable from related parties

	2018.12.31	2017.12.31
AMI	$400,422	$978,230
AMUSA	43	-
MIBW	-	262
Rocs Marine Industry Corporation	2,098	-
Total	$402,563	$978,492

5. Account payable to related parties

	2018.12.31	2017.12.31
MIBW	$29,252	$30,062

6. Other payable to related parties

	2018.12.31	2017.12.31
AMI	$2,755	$6,396
AMUSA	1,763	536
MIBW	-	161
Johnny Chueh	30,905	-
Total	$35,423	$7,093

7. Other revenues

	31 Dec. 2018	31 Dec. 2017
Johnny Chueh	$-	$7,984

8. Operating leases

Related Parties Name	Rent expense 2018	Rent expense 2017	Leases period	Lease Location	function
Rocs Marine Industry Corporation	$6,911	$5,945	Feb. 2015～Jan. 2024	No. 18, Tongli Rd., Xiaogang Dist., Kaohsiung City 812, Taiwan (R.O.C.)	Office and Yacht Manufacturing

The total rent expense to be paid in the coming years are as follows:

Year	Amount
Jan. 2019～Dec. 2019	$6,999
Jan. 2020～Dec. 2020	6,999
Jan. 2021～Dec. 2021	6,999
Jan. 2022～Dec. 2022	6,999
Jan. 2023～Dec. 2023	6,999
Jan. 2024	583
Total	$35,578

9. Transactions of Property
The property Company purchase from related parties in 2018:

Name of the related parties	Object of transaction	Acquired price	Price determined
Johnny Chueh	Share of Rocs Marine Industry Corporation.	$63,758	Note
Anna Chueh	Share of Rocs Marine Industry Corporation.	$63,758	Note

Note: The price was determined by the Rocs Marine Industry Corporation's equity net worth and the evaluated price report.

10. Key management personnel compensation

	2018	2017
Short-term employee benefits	$8,594	$8,231
Post-employment benefits	279	267
Total	$8,873	$8,498

11. As of December 31, 2018, Johnny Chueh was a joint loan guarantor for the Company's borrowing from financial institutions.

VIII. ASSETS PLEDGED AS COLLATERAL

The following table lists assets of the Company pledged as security:

Item	Amount		Purpose of pledge
	31 Dec. 2018	31 Dec. 2017	
Other financial assets, current	$85,650	$41,466	Bank loans
Land	342,678	342,678	Bank loans
Buildings	145,671	150,411	Bank loans
Total	$573,999	$534,555	

IX. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENT

1. As of 31 December 2018, the on-going constructions were as follows:

Contract Name	Contract Price (in Thousands)	Paid Amount (in Thousands)	Unpaid Amount (in Thousands)
Heightening (Guangyang Street)	$59,000	$40,157	$18,843
Construction in progress (Jin-fu Road)	32,000	9,667	22,333
Yacht Mold	49,399	29,870	19,529

2. As of 31 December 2018, the Group had issued unused letter of credits in the amount of NT$20,240 thousand.

3. In connection with the yacht flaws dispute, David Parker and Big Bird Holding LLC filed an action against the Company and Ocean Alexander Marine Yacht Sales Inc. (“OAMYS”, a related party) in the United States District Court -Central District of California. The court of first instance found that the Company and OAMYS shall pay a sum of US $ 3,931 thousand. The defendants filed an appeal and the proportion or amount of the required compensation have not been determined. The majority shareholder of the Company has issued an undertaking that stated that in the event the compensation is finalized, it will assume the responsibility of the full compensation payment. The Company's assessment of the aforesaid events revealed that they had no significant impact on the Company's current operations.

4. In connection with the yacht flaws dispute and on account of subrogation right, Northern Insurance Company of New York and Federal Insurance Company filed an action against the Company, and requested compensations in the amount of US$1,500 thousand and US$300 thousand, respectively, from the Company. In the settlement between the two parties, in addition to the compensation paid by the insurance company, the Company was required to pay USD$45,000 as compensation, which has been paid by the major shareholders. After the case was settled, the Northern Insurance Company of New York and the Federal Insurance Company withdrew this action on 7 April 2017.

5. The syndicated loan agreement the Company signed with the Chang Hwa Commercial Bank and other ten banks, stated that during the credit period from 2019 to 2023, the Company's current ratio audited every six months shall maintain at 100%(inclusive) or above; debt ratio shall not be higher than 150%; the interest coverage ratio shall maintain at 200%; tangible net worth at least NT$170,000 thousand. If the Company does not comply with the above loan requirements as shown on the expiration day and that if the Chang Hwa Commercial Bank considers necessary, Chang Hwa Commercial Bank may call a meeting of the banks to decide on a course of action by majority vote with respect to the matter or request written approval from the majority of the banks for such course of action when necessary.

X. SIGNIFICANT DISASTER LOSS

None

XI. SIGNIFICANT SUBSEQUENT EVENTS

None

XII. OTHER

1. Categories of financial instruments

Financial Assets

	31 Dec. 2018	31 Dec. 2017
Financial assets measured at amortized cost (Note 2)	$1,615,780	(Note 1)
Loan and receivables (Note 3)	(Note 1)	$2,021,922
Total	$1,615,780	$2,021,922

Financial Liabilities

	31 Dec. 2018	31 Dec. 2017
Financial liabilities at amortized cost:		
Short-term loans	$784,357	$1,053,308
Short-term notes and bills payable	319,649	59,674
Notes payable, account payable and other payable (includes related parties)	256,237	235,299
Long-term loans	1,330,216	-
Total	$2,690,459	$1,348,281

Note:

1. The Company adopted IFRS 9 since 1 January 2018. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 9.
2. Including cash and cash equivalents (excluding cash on hand), notes receivable, trade receivables, other receivables, refundable deposits and other financial assets.
3. Including cash and cash equivalents (excluding cash on hand), notes receivable, trade receivables, other receivables, refundable deposits and other financial assets.

2. Financial risk management objectives and policies

The Company's risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Company identifies, measures and manages the aforementioned risks based on policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant financial activities, due approval process by the board of directors and audit committee must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

3. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise currency risk, interest rate risk, and other price risk (such as equity instruments related risks).

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependencies between risk variables. However the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Company also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Company.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly affected by US dollar fluctuations. Sensitivity analysis is as follows:

When NTD strengthens/weakens against USD by 1%, the profit for the years ended 31 December 2018 and 2017 is increased/decreased by NT$21,928 thousand and NT$18,015 thousand, respectively.

When NTD strengthens/weakens against EUR by 1%, the profit for the years ended 31 December 2018 and 2017 is increased/decreased by NT$182 thousand and NT$820 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans and receivables at variable interest rates, bank borrowings with fixed interest rates and variable interest rates.

The Company manages its interest rate risk by having a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for it.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including investments and borrowings with variable interest rates and interest rate swaps. At the reporting date, a change of 10 basis points of interest rate in a reporting period could cause the profit for the years ended 31 December 2018 and 2017 to decrease/increase by NT$1,907 thousand and NT$805 thousand, respectively.

4. Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits and other financial instruments.

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customer's credit risk will also be managed by taking credit enhancement procedures, such as requesting for unearned receipts.

As of 31 December 2018 and 2017 accounts receivables from the top ten customers represented 100% of the total accounts receivables of the Company.

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating and with no significant default risk. Consequently, there is no significant credit risk for these counter parties.

5. Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments, bank borrowings, convertible bonds and finance leases. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
31 Dec. 2018					
Short-term loans	$1,105,350	$-	$-	$-	$1,105,350
Payables	254,893	-	-	-	254,893
Long-term loans	23,528	473,285	931,782	-	1,428,595
31 Dec. 2017					
Loans	$1,114,376	$-	$-	$-	$1,114,376
Payables	233,905	-	-	-	233,905

6. Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 2018:

	Short-term loans	Short-term notes and bills Payable	Long-term loans	Total liabilities from financing activities
As at 1 Jan. 2018	$1,053,308	$59,674	$-	$1,112,982
Cash flows	(268,951)	258,408	1,329,800	1,319,257
Non-cash changes				
Discount amortization	-	1,567	-	1,567
Interest expense	-	-	416	416
As at 31 Dec. 2018	$784,357	$319,649	$1,330,216	$2,434,222

Reconciliation of liabilities for the year ended December 2017:
Not applicable.

7. Fair value of financial instruments

(1) The methods and assumptions applied in determining the fair value of financial instruments:

The fair value of the financial assets and liabilities is determined at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

A. The carrying amount of cash and cash equivalents, accounts receivables and accounts payable approximate their fair value.

B. Fair value of debt instruments without market quotations, bank loans, bonds payable and other noncurrent liabilities are determined based on the counterparty prices or valuation method. The valuation method uses discounted cash flow method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves published by the Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

C. For refundable deposits and deposits received, the carrying amount is used to approximate fair value since anticipated inflows/outflows in the future are close to the carrying amount.

(2) Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's financial assets and liabilities measured at amortized cost approximate their fair value.

(3) Fair value measurement hierarchy

A. Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 – Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

B. Fair value measurement hierarchy information

The Company does not have repetitive assets and liabilities measured at fair value.

8. Significant assets and liabilities denominated in foreign currencies

The Company's significant assets and liabilities denominated in foreign currencies are as follows:

Unit: thousands

	31 Dec. 2018		
	Foreign Currency	Exchange	NTD
Financial Assets			
Monetary items:			
USD	$74,709	30.715	$2,294,687
EUR	831	35.200	29,251
Financial Liabilities			
Monetary items:			
USD	2,814	30.715	86,432
EUR	1,351	35.200	47,555

	31 Dec. 2017		
	Foreign Currency	Exchange	NTD
Financial Assets			
Monetary items:			
USD	$65,318	29.76	$1,943,864
EUR	1,292	35.57	45,956
Financial Liabilities			
Monetary items:			
USD	5,268	29.76	156,776
EUR	3,571	35.57	127,020

The above information is disclosed based on the carrying amount of foreign currency (after conversion to functional currency).

The Company's entities use a number of functional currencies hence it is not practical to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant foreign currencies. The foreign exchange gains (losses) were $60,484 thousand and $80,051 thousand for the years ended December 31, 2018 and 2017, respectively.

9. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

Alexander Marine Co., Ltd.

Chairman : Johnny Chueh