

**SINCERE NAVIGATION CORPORATION
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2017 AND 2016**

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Sincere Navigation Corporation

Opinion

We have audited the accompanying consolidated balance sheets of Sincere Navigation Corporation and its subsidiaries (the “Group”) as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The most significant key audit matters in our audit of the consolidated financial statements of the current period are as follows:

Impairment of vessels and equipmentDescription

For accounting policy, accounting estimates and assumptions applied on impairment of property, plant and equipment and related impairment explanation, please refer to Notes 4(13), 5(2) and 6(2).

The Group engages in bulk shipping service. Vessels are the Group's significant operating assets. Bulk shipping service is closely related with demand of bulk commodities, and significantly affected by global economy. Therefore, the impairment of vessels is the Group's material risk. The valuation of impairment are evaluated by the management by comparing the book value to the recoverable amounts based on the analysis of industry dynamics and the Group's operation plan. As of December 31, 2017, vessels and equipment amounted to NT\$18,031,160 thousand, constituting 75% of total assets.

The main assumptions adopted in measuring the recoverable amount are subject to management's judgements, which includes the estimation of residual value, useful life, future freight rate and the rate used to discount forecast future cash flow. The result of accounting estimates have a significant effect on valuating the recoverable amount. Therefore, we consider the impairment of vessels and equipment as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained the information that management used to assess whether there was an indication that the assets were impaired. Inspected the accuracy of the information which was obtained from internal and external sources, and assessed the reasonableness of the assessment result.
2. Obtained the valuation information used by management in determining recoverable amount. Discussed the operation plan with management about the income and expenses that may occur in the future and reviewed performance conditions of previous operation plan to assess management's performance intention and ability. Obtained the subsequent information within certain period to compare with the original plan.
3. Compared the discount rate used in the valuation model with the rate of return on assets of similar assets in the market, and checked the assumption used in calculating weighted average cost of capital (WACC) with actual proportion of equity capital, industrial risk coefficient and market risk premium.
4. Checked the parameters and the formula used in the valuation model.

Reasonableness of V/C (voyage charterer) revenue recognition timing

Description

For accounting policy on revenue recognition and related details of revenue, please refer to Notes 4(21) and 6(10).

The Group's operating revenue is derived from two types of contracts which are T/C (time charter) and V/C (voyage charter). For T/C revenue, the Group calculated and recognized revenue based on daily freight rate and voyage information recorded on the contract, so that the recognition cut-off point is explicit at the end of the reporting period. For V/C revenue, the Group recognized revenue based on the percentage of completion of services rendered. There were many factors involved in determining the progress of revenue recognition, such as, the length of the negotiated period of contracts, conditions of vessels and equipment, the changes of port of discharge and loading and so on.

Given that the Group's V/C revenue recognition involved manual judgement, a significant amount of resources is required in conducting the audit. Thus, we consider the cut-off of V/C revenue as a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained an understanding of the procedures of management in recognizing V/C revenue, and confirmed the evidence of revenue recognition and the appropriateness of approval procedures.
2. Checked the contracts for V/C around the period of balance sheet date, and based on our understanding of the client's operation conditions, assess the reasonableness of voyage planning developed by management.
3. Obtained the location information reported by the crew of each vessel on balance sheet date, and compared it with management's voyage planning to verify whether revenue has been recognized properly in accordance with the completion of voyage.
4. Obtained the related settlement vouchers in subsequent period to evaluate the reasonableness of revenue recognition.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Sincere Navigation Corporation as at and for the years ended December 31, 2017 and 2016.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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 ROC GAAS 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 ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 disclosures, 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.

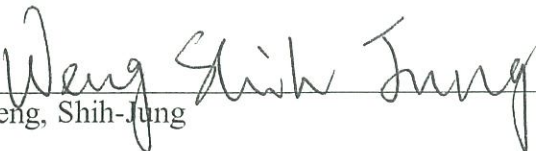


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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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.


Weng, Shih-Jung


Wang, Hui-Hsien

For and on behalf of PricewaterhouseCoopers, Taiwan

March 28, 2018

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than 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.

SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Assets | | | December 31, 2017 | | December 31, 2016 | |
|--------------------|-----------------------------------|------------------|-------------------|-----|-------------------|-----|
| | | | AMOUNT | % | AMOUNT | % |
| Current assets | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | \$ 3,678,635 | 15 | \$ 4,948,791 | 19 |
| 1170 | Accounts receivable | 12(2) | 257,166 | 1 | 264,092 | 1 |
| 1200 | Other receivables | 9(1) | 190,877 | 1 | 201,630 | 1 |
| 1210 | Other receivables - related party | 7 | 25,487 | - | 17,715 | - |
| 130X | Bunker inventories | | 99,550 | 1 | 52,455 | - |
| 1410 | Prepayments | | 24,429 | - | 42,651 | - |
| 1470 | Other current assets | 8 | 493,499 | 2 | 415,582 | 2 |
| 11XX | Current assets | | 4,769,643 | 20 | 5,942,916 | 23 |
| Non-current assets | | | | | | |
| 1600 | Property, plant and equipment | 6(2)(5), 7 and 8 | 19,118,693 | 80 | 19,630,667 | 77 |
| 1840 | Deferred income tax assets | 6(17) | 5,996 | - | 5,972 | - |
| 1900 | Other non-current assets | 8 | 7,362 | - | 7,381 | - |
| 15XX | Non-current assets | | 19,132,051 | 80 | 19,644,020 | 77 |
| 1XXX | Total assets | | \$ 23,901,694 | 100 | \$ 25,586,936 | 100 |

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SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| Liabilities and equity | | Notes | December 31, 2017 | | December 31, 2016 | |
|---|---|----------|-------------------|-------|-------------------|-----|
| | | | AMOUNT | % | AMOUNT | % |
| Current liabilities | | | | | | |
| 2100 | Short-term borrowings | 6(4) | \$ 760,000 | 3 | \$ 740,000 | 3 |
| 2200 | Other payables | | 217,706 | 1 | 240,024 | 1 |
| 2220 | Other payables - related party | 7 | 337 | - | 106 | - |
| 2230 | Current income tax liabilities | | 133,360 | - | 207,436 | 1 |
| 2300 | Other current liabilities | 6(5) | 1,401,963 | 6 | 1,438,143 | 5 |
| 21XX | Current liabilities | | 2,513,366 | 10 | 2,625,709 | 10 |
| Non-current liabilities | | | | | | |
| 2540 | Long-term borrowings | 6(5) | 4,174,744 | 18 | 4,217,219 | 16 |
| 2570 | Deferred income tax liabilities | 6(17) | 89,058 | - | 145,287 | 1 |
| 2600 | Other non-current liabilities | | 33,380 | - | 30,476 | - |
| 25XX | Non-current liabilities | | 4,297,182 | 18 | 4,392,982 | 17 |
| 2XXX | Total liabilities | | 6,810,548 | 28 | 7,018,691 | 27 |
| Equity attributable to owners of parent | | | | | | |
| Share capital | | 6(7) | | | | |
| 3110 | Share capital - common stock | | 5,683,042 | 24 | 5,683,042 | 22 |
| Capital surplus | | 6(8) | | | | |
| 3200 | Capital surplus | | 51,025 | - | 49,593 | - |
| Retained earnings | | 6(9)(17) | | | | |
| 3310 | Legal reserve | | 3,105,700 | 13 | 3,045,685 | 12 |
| 3320 | Special reserve | | 30,170 | - | - | - |
| 3350 | Unappropriated retained earnings | | 8,090,382 | 34 | 8,069,094 | 32 |
| Other equity interest | | | | | | |
| 3400 | Other equity interest | | (1,479,609) | (6) | (30,170) | - |
| 31XX | Equity attributable to owners of the parent | | 15,480,710 | 65 | 16,817,244 | 66 |
| 36XX | Non-controlling interest | | 1,610,436 | 7 | 1,751,001 | 7 |
| 3XXX | Total equity | | 17,091,146 | 72 | 18,568,245 | 73 |
| Significant contingent liabilities and unrecognized contractual commitments | | 9 | | | | |
| Significant events after balance sheet date | | 11 | | | | |
| 3X2X | Total liabilities and equity | | \$ 23,901,694 | 100 | \$ 25,586,936 | 100 |

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

SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE)

| Items | Notes | Year ended December 31 | | | |
|--|-----------------|------------------------|-----------|-------------------|-------------|
| | | 2017 | | 2016 | |
| | | AMOUNT | % | AMOUNT | % |
| 4000 Operating revenue | 6(10) and 7 | \$ 3,331,863 | 100 | \$ 3,489,617 | 100 |
| 5000 Operating costs | 6(15)(16) and 7 | (2,460,991) | (74) | (2,526,065) | (72) |
| 5900 Net operating margin | | <u>870,872</u> | <u>26</u> | <u>963,552</u> | <u>28</u> |
| Operating expenses | 6(15)(16) and 7 | | | | |
| 6200 General and administrative expenses | | (176,326) | (5) | (170,254) | (5) |
| 6500 Other gains - net | 6(11) | <u>50,841</u> | <u>1</u> | <u>48,490</u> | <u>1</u> |
| 6900 Operating profit | | <u>745,387</u> | <u>22</u> | <u>841,788</u> | <u>24</u> |
| Non-operating income and expenses | | | | | |
| 7010 Other income | 6(12) | 46,129 | 1 | 43,818 | 1 |
| 7020 Other gains and losses | 6(13) | 113,357 | 4 | 20,136 | 1 |
| 7050 Finance costs | 6(14) | (173,239) | (5) | (136,392) | (4) |
| 7000 Total non-operating income and expenses | | <u>(13,753)</u> | <u>-</u> | <u>(72,438)</u> | <u>(2)</u> |
| 7900 Profit before income tax | | 731,634 | 22 | 769,350 | 22 |
| 7950 Income tax expense | 6(17) | (81,158) | (2) | (177,549) | (5) |
| 8000 Profit for the year from continuing operations | | 650,476 | 20 | 591,801 | 17 |
| 8100 Profit for the year from discontinued operations | 6(3) | <u>6,835</u> | <u>-</u> | <u>316,955</u> | <u>9</u> |
| 8200 Profit for the year | | <u>\$ 657,311</u> | <u>20</u> | <u>\$ 908,756</u> | <u>26</u> |

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SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE)

| | | Year ended December 31 | | | |
|---|--|------------------------|----------------------------|-------------------|-----------|
| | | 2017 | | 2016 | |
| Items | Notes | AMOUNT | % | AMOUNT | % |
| Other comprehensive income | | | | | |
| Components of other comprehensive income that will not be reclassified to profit or loss | | | | | |
| 8311 | Losses on remeasurments of defined benefit plans | 6(6) | (\$ 2,542) | - (\$ 3,306) | - |
| 8349 | Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | 6(17) | 432 | 562 | - |
| Components of other comprehensive income that will be reclassified to profit or loss | | | | | |
| 8361 | Exchange differences on translation | | (1,587,888) (48) | (382,282) (11) | |
| 8500 | Total comprehensive income for the year | | (\$ 932,687) (28) | \$ 523,730 | 15 |
| Profit attributable to: | | | | | |
| 8610 | Owners of the parent | | \$ 511,396 15 | \$ 600,146 | 17 |
| 8620 | Non-controlling interest | | 145,915 5 | 308,610 | 9 |
| | | | <u>\$ 657,311 20</u> | <u>\$ 908,756</u> | <u>26</u> |
| Comprehensive income attributable to: | | | | | |
| 8710 | Owners of the parent | | (\$ 940,153) (28) | \$ 256,798 | 7 |
| 8720 | Non-controlling interest | | 7,466 - | 266,932 | 8 |
| | | | <u>(\$ 932,687) (28)</u> | <u>\$ 523,730</u> | <u>15</u> |
| Basic earnings per share | | | | | |
| 9710 | Basic earnings per share from continuing operations | 6(18) | \$ 0.89 | \$ 0.79 | |
| 9720 | Basic earnings per share from discontinued operations | | 0.01 | 0.27 | |
| 9750 | Total basic earnings per share | | <u>\$ 0.90</u> | <u>\$ 1.06</u> | |
| Diluted earnings per share | | | | | |
| 9810 | Diluted earnings per share from continuing operations | 6(18) | \$ 0.89 | \$ 0.79 | |
| 9820 | Diluted earnings per share from discontinued operations | | 0.01 | 0.26 | |
| 9850 | Total diluted earnings per share | | <u>\$ 0.90</u> | <u>\$ 1.05</u> | |

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

SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

Equity attributable to owners of the parent

| | | Capital Reserves | | | | Retained Earnings | | | | | |
|---|---------------------------------|--------------------------------|------------------|---|---------------------|-------------------|--|---|----------------------|---------------------------------|----------------------|
| | | | | Difference between the price for acquisition or disposal of subsidiaries and carrying amount | | | | Financial statements translation differences of foreign operations | | Non- controlling interest | |
| Notes | Share capital - common stock | Treasury stock transactions | | Others | Legal reserve | Special reserve | Unappropriated retained earnings | | Total | | Total equity |
| For the year ended December 31, 2016 | | | | | | | | | | | |
| | \$ 5,683,042 | \$ 39,243 | \$ 10,350 | \$ - | \$ 2,951,246 | \$ 365,770 | \$ 7,768,665 | \$ 310,434 | \$ 17,128,750 | \$ 2,434,622 | \$ 19,563,372 |
| Appropriation of 2015 earnings: | 6(9) | | | | | | | | | | |
| Reversal of special reserve | - | - | - | - | - | (365,770) | 365,770 | - | - | - | - |
| Legal reserve | - | - | - | - | 94,439 | - | (94,439) | - | - | - | - |
| Cash dividends | - | - | - | - | - | - | (568,304) | - | (568,304) | - | (568,304) |
| Profit for the year | - | - | - | - | - | - | 600,146 | - | 600,146 | 308,610 | 908,756 |
| Other comprehensive loss for the year | - | - | - | - | - | - | (2,744) | (340,604) | (343,348) | (41,678) | (385,026) |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | - | (950,553) | (950,553) |
| Balance at December 31, 2016 | <u>\$ 5,683,042</u> | <u>\$ 39,243</u> | <u>\$ 10,350</u> | <u>\$ -</u> | <u>\$ 3,045,685</u> | <u>\$ -</u> | <u>\$ 8,069,094</u> | <u>(\$ 30,170)</u> | <u>\$ 16,817,244</u> | <u>\$ 1,751,001</u> | <u>\$ 18,568,245</u> |
| For the year ended December 31, 2017 | | | | | | | | | | | |
| | \$ 5,683,042 | \$ 39,243 | \$ 10,350 | \$ - | \$ 3,045,685 | \$ - | \$ 8,069,094 | (\$ 30,170) | \$ 16,817,244 | \$ 1,751,001 | \$ 18,568,245 |
| Appropriation of 2016 earnings: | 6(9) | | | | | | | | | | |
| Legal reserve | - | - | - | - | 60,015 | - | (60,015) | - | - | - | - |
| Special reserve | - | - | - | - | - | 30,170 | (30,170) | - | - | - | - |
| Cash dividend | - | - | - | - | - | - | (397,813) | - | (397,813) | - | (397,813) |
| Profit for the year | - | - | - | - | - | - | 511,396 | - | 511,396 | 145,915 | 657,311 |
| Other comprehensive loss for the year | - | - | - | - | - | - | (2,110) | (1,449,439) | (1,451,549) | (138,449) | (1,589,998) |
| Change in non-controlling interest | - | - | - | - | - | - | - | - | - | (148,031) | (148,031) |
| Overdue unclaimed cash dividends | - | - | - | 1,432 | - | - | - | - | 1,432 | - | 1,432 |
| Balance at December 31, 2017 | <u>\$ 5,683,042</u> | <u>\$ 39,243</u> | <u>\$ 10,350</u> | <u>\$ 1,432</u> | <u>\$ 3,105,700</u> | <u>\$ 30,170</u> | <u>\$ 8,090,382</u> | <u>(\$ 1,479,609)</u> | <u>\$ 15,480,710</u> | <u>\$ 1,610,436</u> | <u>\$ 17,091,146</u> |

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

SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | | Foy the years ended December 31, | |
|--|----------|----------------------------------|---------------|
| | Notes | 2017 | 2016 |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | |
| Profit from continuing operations before tax | | \$ 731,634 | \$ 769,350 |
| Profit from discontinued operations before tax | 6(3) | 6,835 | 316,955 |
| Profit before tax | | 738,469 | 1,086,305 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation expense | 6(2)(15) | 1,272,380 | 1,341,167 |
| Interest income | 6(12) | (34,477) | (29,283) |
| Interest expense | 6(14) | 173,239 | 136,392 |
| Gain on disposal of non-current assets classified as held for sale | 6(3) | (10,011) | (75,283) |
| Loss on disposal of property, plant and equipment | 6(13) | - | 40 |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Accounts receivable | | 6,926 | 150,196 |
| Other receivables | | 13,423 | (8,458) |
| Other receivables - related party | | (7,772) | 26,774 |
| Bunker inventories | | (53,563) | (5,098) |
| Prepayments | | 18,222 | 10,908 |
| Changes in operating liabilities | | | |
| Other payables | | (29,242) | (2,640) |
| Other payables - related party | | 231 | 106 |
| Advance collections | | (31,940) | (31,240) |
| Accrued pension liabilities | | 362 | 401 |
| Cash inflow generated from operations | | 2,056,247 | 2,600,287 |
| Interest received | | 31,676 | 30,061 |
| Income tax paid | | (211,055) | (178,364) |
| Net cash flows from operating activities | | 1,876,868 | 2,451,984 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Increase in other financial assets | | (77,917) | (2,730) |
| Acquisition of property, plant and equipment | 6(2) | (2,357,362) | (753,658) |
| Proceeds from disposal of non-current assets classified as held for sale | 6(3) | 129,686 | 1,371,929 |
| Decrease in refundable deposits | | 19 | 78 |
| Net cash flows (used in) from investing activities | | (2,305,574) | 615,619 |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Increase in short-term loans | | 20,000 | - |
| Proceeds from long-term borrowings | | 1,757,333 | - |
| Repayment of long-term borrowings | | (1,326,878) | (1,631,307) |
| Cash payment of interest | | (166,153) | (133,472) |
| Cash dividends paid | 6(9) | (397,813) | (568,304) |
| Change in non-controlling interests | | (148,031) | (950,553) |
| Overdue unclaimed cash dividends | | 1,432 | - |
| Net cash flows used in financing activities | | (260,110) | (3,283,636) |
| Effect of changes rate changes on cash and cash equivalents | | (581,340) | (138,988) |
| Net decrease in cash and cash equivalents | | (1,270,156) | (355,021) |
| Cash and cash equivalents at beginning of year | | 4,948,791 | 5,303,812 |
| Cash and cash equivalents at end of year | | \$ 3,678,635 | \$ 4,948,791 |

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

SINCERE NAVIGATION CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE
INDICATED)

1. HISTORY AND ORGANISATION

Sincere Navigation Corporation (the “Company”) was incorporated in 1968 with an original capital of \$1,000. On December 31, 1988, the Company was the surviving company in the merger with Karson and Tai Hsing Navigation Corporation to meet operating demands and further improve capital structure. The Company’s shares have been listed on the Taiwan Stock Exchange since December 8, 1989. The Company and its subsidiaries (collectively referred herein as the “Group”) are engaged in bulk shipping, tug and barge services, and operating a shipping agency.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 28, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|---|--|
| Amendments to IFRS 10, IFRS 12 and IAS 28, ‘Investment entities: applying the consolidation exception’ | January 1, 2016 |
| Amendments to IFRS 11, ‘Accounting for acquisition of interests in joint operations’ | January 1, 2016 |
| IFRS 14, ‘Regulatory deferral accounts’ | January 1, 2016 |
| Amendments to IAS 1, ‘Disclosure initiative’ | January 1, 2016 |
| Amendments to IAS 16 and IAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’ | January 1, 2016 |
| Amendments to IAS 16 and IAS 41, ‘Agriculture: bearer plants’ | January 1, 2016 |
| Amendments to IAS 19, ‘Defined benefit plans: employee | July 1, 2014 |
| Amendments to IAS 27, ‘Equity method in separate financial | January 1, 2016 |
| Amendments to IAS 36, ‘Recoverable amount disclosures for non-financial assets’ | January 1, 2014 |

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|--|--|
| Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting' | January 1, 2014 |
| IFRIC 21, 'Levies' | January 1, 2014 |
| Annual improvements to IFRSs 2010-2012 cycle | July 1, 2014 |
| Annual improvements to IFRSs 2011-2013 cycle | July 1, 2014 |
| Annual improvements to IFRSs 2012-2014 cycle | January 1, 2016 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

| New Standards, Interpretations and Amendments | Effective Date by International Accounting Standards Board |
|--|--|
| Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions' | January 1, 2018 |
| Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts' | January 1, 2018 |
| IFRS 9, 'Financial instruments' | January 1, 2018 |
| IFRS 15, 'Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers' | January 1, 2018 |
| Amendments to IAS 7, 'Disclosure initiative' | January 1, 2017 |
| Amendments to IAS 12, 'Recognition of deferred tax assets for' | January 1, 2017 |
| Amendments to IAS 40, 'Transfers of investment property' | January 1, 2018 |
| IFRIC 22, 'Foreign currency transactions and advance consideration' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards' | January 1, 2018 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities' | January 1, 2017 |
| Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures' | January 1, 2018 |

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective Date by International Accounting Standards Board</u> |
|--|---|
| Amendments to IFRS 9, 'Prepayment features with negative | January 1, 2019 |
| Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined by International Accounting Standards Board |
| IFRS 16, 'Leases' | January 1, 2019 |
| IFRS 17, 'Insurance contracts' | January 1, 2021 |
| Amendments to IAS 28, 'Long-term interests in associates and joint | January 1, 2019 |
| IFRIC 23, 'Uncertainty over income tax treatments' | January 1, 2019 |
| Annual improvements to IFRSs 2015-2017 cycle | January 1, 2019 |

The above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the following item, the consolidated financial statements have been prepared under the historical cost convention:

Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in

the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income 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.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

B. Subsidiaries included in the consolidated financial statements:

(a) Norley Corporation Inc. (Norley)

Norley, a wholly-owned subsidiary of Sincere Navigation Corporation, is engaged in investment holdings. The following are the subsidiaries of Norley:

| Name of investor | Name of subsidiary | Main business activities | Ownership(%) | | Description |
|------------------|--|--------------------------|-------------------|-------------------|-------------|
| | | | December 31, 2017 | December 31, 2016 | |
| Norley | Poseidon Marine Ltd | Shipping | 100% | 100% | |
| " | Kenmore Shipping Inc. | Oil tanker | 100% | 100% | |
| " | Maxson Shipping Inc. | Shipping | 100% | 100% | |
| " | Ocean Wise Limited | Shipping | 51% | 51% | |
| " | Valentine Holdings Limited (Valentine) | Investment holdings | - | 60% | Note 1 |
| " | Kingswood Co., Ltd. (Kingswood) | Investment holdings | 50% | 50% | Note 2 |
| " | Winnington Limited (Winnington) | Investment holdings | 100% | 100% | |
| " | Jetwall Co. Ltd. (Jetwall) | Investment holdings | 80% | 80% | |
| " | Victory Navigation Inc. (Victory) | Investment holdings | 55% | 55% | |
| " | Pacifica Maritime Limited | Oil tanker | 100% | 100% | |
| " | Dynasty Navigation Limited | Holding in shipbuilding | - | 100% | Note 1 |
| " | Sky Sea Maritime Limited (Sky Sea) | Investment holdings | 55% | 55% | |
| Valentine | Gemini Investment Company Limited | Shipping | - | 100% | Note 1 |
| " | Millennia Investment Company Limited | Shipping | - | 100% | Note 1 |
| Kingswood | Seven Seas Shipping Ltd. | Oil tanker | 100% | 100% | |
| Winnington | Peg Shipping Company Limited | Shipping | 100% | 100% | |
| Jetwall | Everwin Maritime Limited | Oil tanker | 100% | 100% | |
| Victory | Everprime Shipping Limited | Shipping | 100% | 100% | |
| Sky Sea | Ocean Grace Limited | Holding in shipbuilding | 100% | 100% | |

Note 1: Valentine Holdings Limited, Dynasty Navigation Limited, Gemini Investment Company Limited and Millennia Investment Company Limited ceased operations and was liquidated on November 3, 2017.

Note 2: Although the shareholding ratio of the Company's directly or indirectly held shares is less than 50%, as the Company has control over the investees, the investees are included in the consolidated entities.

(b) Heywood Limited (Heywood)

Heywood, a wholly-owned subsidiary of Sincere Navigation Corporation, is engaged in investment holdings. The following are the subsidiaries of Heywood:

| Name of investor | Name of subsidiary | Main business activities | Ownership(%) | | Description |
|------------------|---|--------------------------|-------------------|-------------------|-------------|
| | | | December 31, 2017 | December 31, 2016 | |
| Heywood | Newton Navigation Limited | Shipping | 100% | 100% | |
| " | Clifford Navigation Corporation | Shipping | 100% | 100% | |
| " | Brighton Shipping Inc. | Shipping | 100% | 100% | |
| " | Rockwell Shipping Limited | Shipping | 100% | 100% | |
| " | Howells Shipping Inc. | Shipping | 100% | 100% | |
| " | Crimson Marine Company | Shipping | 100% | 100% | |
| " | Helmsman Navigation Co. Ltd. | Shipping | 100% | 100% | |
| " | Keystone Shipping Co. Ltd. | Shipping | 100% | 100% | |
| " | Honco Shipping Limtied | Investment holdings | - | 100% | Note 1 |
| " | Century Shipping Limited (Centutry) | Investment holdings | 100% | 100% | |
| Century | Haihu Maritime Service (Shanghai) Co., Ltd. | Maritime service | 100% | 100% | |

Note 1: Honco Shipping Limtied ceased operations and was liquidated on September 29, 2017.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange

rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.

- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within “other gains and losses”.

B. Translation of foreign operations

The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(7) Accounts receivable

Accounts receivable are receivables originated by the entity. They are created by the entity by providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider; or
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation.
- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows:

Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(9) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(10) Inventories

Inventories are bunker inventories remaining on vessel at year end. The vessel of bunker inventory is determined using the first-in, first-out (FIFO) method.

(11) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

(12) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a

change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

| | |
|--------------------------|--------------|
| Buildings and structures | 42 years |
| Vessels and equipment | 2.5-20 years |
| Office equipment | 3-7 years |

(13) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(14) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(15) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(16) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(17) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(18) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the

reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.

(19) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(20) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(21) Revenue recognition

The Group recognizes the revenue, when it is probable that any future economic benefits associated with the transaction will flow to the entity; and the amount of revenue can be measured reliably. Voyage charter: revenue is recognized according to the percentage of completion of services rendered; time charter: revenue is recognised by straight-line method over the charter agreement term; and maritime management revenue is recognized by contract during the service period.

(22) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Impairment assessment of tangible assets

The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes of economic circumstances or estimates due to the change of Group strategy might cause material impairment on assets in the future.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------------|--------------------------|--------------------------|
| Checking accounts and demand deposits | \$ 1,538,901 | \$ 1,899,794 |
| Time deposits | <u>2,139,734</u> | <u>3,048,997</u> |
| Total | <u>\$ 3,678,635</u> | <u>\$ 4,948,791</u> |

- A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. The Group's cash and cash equivalents pledged to others as collaterals were classified as other current assets. Related information is provided in Note 8.

(2) Property, plant and equipment

| | <u>Land</u> | <u>Buildings</u> | <u>Vessels and equipment</u> | <u>Office equipment</u> | <u>Prepayment for vessel construction</u> | <u>Total</u> |
|--|------------------|------------------|----------------------------------|-----------------------------|---|----------------------|
| <u>At January 1, 2017</u> | | | | | | |
| Cost | \$ 90,215 | \$ 28,191 | \$ 27,300,640 | \$ 2,854 | \$ 1,807,299 | \$ 29,229,199 |
| Accumulated depreciation | - | (14,642) | (9,323,997) | (1,893) | - | (9,340,532) |
| Accumulated impairment | - | - | (258,000) | - | - | (258,000) |
| | <u>\$ 90,215</u> | <u>\$ 13,549</u> | <u>\$ 17,718,643</u> | <u>\$ 961</u> | <u>\$ 1,807,299</u> | <u>\$ 19,630,667</u> |
| <u>2017</u> | | | | | | |
| Opening net book amount | \$ 90,215 | \$ 13,549 | \$ 17,718,643 | \$ 961 | \$ 1,807,299 | \$ 19,630,667 |
| Transfers | - | - | 2,961,405 | - | (2,961,405) | - |
| Additions | - | - | 95,376 | 232 | 2,261,754 | 2,357,362 |
| Disposals (Note) | - | - | (113,632) | - | - | (113,632) |
| Retirement - cost | - | - | (119,260) | - | - | (119,260) |
| Retirement - accumulated depreciation | - | - | 119,260 | - | - | 119,260 |
| Depreciation | - | (655) | (1,271,444) | (281) | - | (1,272,380) |
| Net exchange differences | - | - | (1,359,188) | (1) | (124,135) | (1,483,324) |
| Closing net book amount | <u>\$ 90,215</u> | <u>\$ 12,894</u> | <u>\$ 18,031,160</u> | <u>\$ 911</u> | <u>\$ 983,513</u> | <u>\$ 19,118,693</u> |
| <u>At December 31, 2017</u> | | | | | | |
| Cost | \$ 90,215 | \$ 28,191 | \$ 27,344,037 | \$ 3,069 | \$ 983,513 | \$ 28,449,025 |
| Accumulated depreciation | - | (15,297) | (9,074,797) | (2,158) | - | (9,092,252) |
| Accumulated impairment | - | - | (238,080) | - | - | (238,080) |
| | <u>\$ 90,215</u> | <u>\$ 12,894</u> | <u>\$ 18,031,160</u> | <u>\$ 911</u> | <u>\$ 983,513</u> | <u>\$ 19,118,693</u> |

Note: Details of current disposal of vessels and equipment, please refer to Note 6(3).

| | <u>Land</u> | <u>Buildings</u> | <u>Vessels and equipment</u> | <u>Office equipment</u> | <u>Prepayment for vessel construction</u> | <u>Total</u> |
|--|------------------|------------------|----------------------------------|-----------------------------|---|----------------------|
| <u>At January 1, 2016</u> | | | | | | |
| Cost | \$ 90,215 | \$ 28,191 | \$ 30,831,483 | \$ 3,033 | \$ 1,268,954 | \$ 32,221,876 |
| Accumulated depreciation | - | (13,987) | (10,063,277) | (1,842) | - | (10,079,106) |
| Accumulated impairment | - | - | (264,824) | - | - | (264,824) |
| | <u>\$ 90,215</u> | <u>\$ 14,204</u> | <u>\$ 20,503,382</u> | <u>\$ 1,191</u> | <u>\$ 1,268,954</u> | <u>\$ 21,877,946</u> |
| <u>2016</u> | | | | | | |
| Opening net book amount | \$ 90,215 | \$ 14,204 | \$ 20,503,382 | \$ 1,191 | \$ 1,268,954 | \$ 21,877,946 |
| Additions | - | - | 192,720 | - | 560,938 | 753,658 |
| Disposals (Note) | - | - | (1,286,888) | - | - | (1,286,888) |
| Retirement - cost | - | - | (61,446) | - | - | (61,446) |
| Retirement - accumulated depreciation | - | - | 61,446 | - | - | 61,446 |
| Depreciation | - | (655) | (1,340,292) | (220) | - | (1,341,167) |
| Net exchange differences | - | - | (350,279) | (10) | (22,593) | (372,882) |
| Closing net book amount | <u>\$ 90,215</u> | <u>\$ 13,549</u> | <u>\$ 17,718,643</u> | <u>\$ 961</u> | <u>\$ 1,807,299</u> | <u>\$ 19,630,667</u> |
| <u>At December 31, 2016</u> | | | | | | |
| Cost | \$ 90,215 | \$ 28,191 | \$ 27,300,640 | \$ 2,854 | \$ 1,807,299 | \$ 29,229,199 |
| Accumulated depreciation | - | (14,642) | (9,323,997) | (1,893) | - | (9,340,532) |
| Accumulated impairment | - | - | (258,000) | - | - | (258,000) |
| | <u>\$ 90,215</u> | <u>\$ 13,549</u> | <u>\$ 17,718,643</u> | <u>\$ 961</u> | <u>\$ 1,807,299</u> | <u>\$ 19,630,667</u> |

Note: Details of current disposal of vessels and equipment, please refer to Note 6(3).

A. The estimated useful lives of the Group's significant components of vessels and equipment are as follows:

| | |
|---|-----------|
| (a) Vessel | 20 years |
| (b) Repairs and dry-dock inspection of vessel | 2.5 years |

B. Amount of borrowing costs capitalised as part of property, plant and equipment and the range of the interest rates for such capitalisation: None.

C. Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

D. The Group assess the impairment of vessels and equipment for comparing its recoverable amount and carrying amount. The recoverable amount is the higher of the fair value less costs to sell or value in use. The fair value less costs to sell is evaluated by independent appraiser and the value in use is calculated by the discounted amount of future cash flows generated by vessels and equipment. The recoverable value of vessels and equipment for the years ended December 31, 2017 and 2016 adopted the amount of value in use and no losses were impaired.

(3) Non-current assets held for sale and discontinued operation

A. On February 24, 2017, the Board of Directors of the Company's third-tier subsidiary, Millennia Investment Company Limited, approved and authorized the Chairman to sell the vessel named "Daio Excelsior" on behalf of the Company and entered into a sale agreement with the buyer – Faithe Maritime Limited. On February 24, 2017, the disposal of the vessel met the definition of non-current assets held for sale and discontinued operations, and is classified as a discontinued operation. On May 8, 2017, the vessel was sold and the transaction was settled. On November 3, 2017, the liquidation was completed.

(a) The cash flow information of the discontinued operation is as follows:

| | For the years ended December 31, | |
|----------------------|----------------------------------|------------------|
| | 2017 | 2016 |
| Operating cash flows | (\$ 2,477) | \$ 29,541 |
| Investing cash flows | 129,686 | - |
| Financing cash flows | - | - |
| Total cash flows | <u>\$ 127,209</u> | <u>\$ 29,541</u> |

- (b) Analysis of the result of discontinued operation, and the result recognized on the remeasurement of assets or disposal group, is as follows:

| | For the years ended December 31, | |
|---|----------------------------------|-------------------|
| | 2017 | 2016 |
| Revenue | \$ 26,354 | \$ 90,850 |
| Cost | (28,144) | (95,077) |
| Net operating margin from discontinued operation | (1,790) | (4,227) |
| Expenses | (1,392) | (4,621) |
| Loss from discontinued operation | (3,182) | (8,848) |
| Other income | 3 | 3 |
| Other gains and losses | 3 | 569 |
| Loss for the years from discontinued operation | <u>(\$ 3,176)</u> | <u>(\$ 8,276)</u> |
| Gain on disposal of discontinued operation | <u>\$ 10,011</u> | <u>\$ -</u> |
| Total profit (loss) for the years from discontinued operation | <u>\$ 6,835</u> | <u>(\$ 8,276)</u> |
| Profit (loss) from discontinued operation, attributable to: | | |
| Owners of the parent | \$ 4,101 | (\$ 4,966) |
| Non-controlling interest | <u>2,734</u> | <u>(3,310)</u> |
| | <u>\$ 6,835</u> | <u>(\$ 8,276)</u> |

- B. On November 1, 2016, the Board of Directors of Seven Seas Shipping Ltd. approved and authorized the Chairman to sell the vessel named “V. K. Eddie” on behalf of the Company and entered into a sale agreement with the buyer – Euronav Luxembourg S.A. On November 23, 2016, the disposal of the vessel met the definition of non-current assets held for sale and discontinued operations, and is classified as a discontinued operation. On November 23, 2016, the vessel was sold and the transaction was settled.

- (a) The cash flow information of the discontinued operation is as follows:

| | For the year ended December 31, 2016 |
|----------------------|---|
| Operating cash flows | \$ 405,691 |
| Investing cash flows | 1,258,140 |
| Financing cash flows | - |
| Total cash flows | <u>\$ 1,663,831</u> |

- (b) Analysis of the result of discontinued operation, and the result recognized on the remeasurement of assets or disposal group, is as follows:

| | For the year ended December 31, 2016 |
|---|---|
| Revenue | \$ 440,389 |
| Cost | (177,915) |
| Net operating margin from discontinued operation | 262,474 |
| Expenses | (6,585) |
| Profit from discontinued operation | 255,889 |
| Other income | 11 |
| Other gains and losses | - |
| Profit for the year from discontinued operation | \$ 255,900 |
| Gain on disposal of discontinued operation | \$ 85,828 |
| Total profit for the year from discontinued operation | \$ 341,728 |
| Profit from discontinued operation, attributable to: | |
| Owners of the parent | \$ 170,864 |
| Non-controlling interest | 170,864 |
| | \$ 341,728 |

- C. On August 17, 2016, the Board of Directors of Gemini Investment Company Limited approved and authorized the Chairman to sell the vessel named “Crimson Jupiter” on behalf of the Company and entered into a sale agreement with the buyer – United Nav Development Limited. On September 4, 2016, the disposal of the vessel met the definition of non-current assets held for sale and discontinued operations, and is classified as a discontinued operation. On September 6, 2016, the vessel was sold and the transaction was settled.

- (a) The cash flow information of the discontinued operation is as follows:

| | For the year ended December 31, 2016 |
|----------------------|---|
| Operating cash flows | \$ 7,383 |
| Investing cash flows | 113,789 |
| Financing cash flows | - |
| Total cash flows | \$ 121,172 |

(b) Analysis of the result of discontinued operation, and the result recognized on the remeasurement of assets or disposal group, is as follows:

| | For the year ended December 31, 2016 |
|---|---|
| Revenue | \$ 61,469 |
| Cost | (65,781) |
| Net operating loss from discontinued operation | (4,312) |
| Expenses | (3,437) |
| Loss from discontinued operation | (7,749) |
| Other income | 4 |
| Other gains and losses | 1,793 |
| Loss for the year from discontinued operation | (\$ 5,952) |
| Loss on disposal of discontinued operation | (\$ 10,545) |
| Total loss for the year from discontinued operation | (\$ 16,497) |
| Loss from discontinued operation, attributable to: | |
| Owners of the parent | (\$ 9,898) |
| Non-controlling interest | (6,599) |
| | (\$ 16,497) |

D. Profit from continuing and discontinued operation attributable to owners of the parent and earnings per share: Please refer to Note 6(18).

(4) Short-term borrowings

| Type of borrowings | December 31, 2017 | Interest rate range | Collateral |
|----------------------|-------------------|---------------------|--------------------------------------|
| Bank borrowings | | | |
| Secured borrowings | \$ 80,000 | 1.20% | Land, buildings and promissory notes |
| Unsecured borrowings | 680,000 | 1.13% ~ 1.30% | Promissory notes |
| | <u>\$ 760,000</u> | | |
| Type of borrowings | December 31, 2016 | Interest rate range | Collateral |
| Bank borrowings | | | |
| Secured borrowings | \$ 60,000 | 1.29% | Land, buildings and promissory notes |
| Unsecured borrowings | 680,000 | 1.13% ~ 1.30% | Promissory notes |
| | <u>\$ 740,000</u> | | |

As of December 31, 2017 and 2016, the Company's Chairman, Fred Tsai, guaranteed for the credit lines of \$1,074,000; the Company also issued notes payable as guarantee for credit lines amounting to \$774,000, wherein joint – guaranteed amount was \$574,000.

(5) Long-term borrowings

| Bank | Collateral | December 31, 2017 | December 31, 2016 |
|---|--------------------|-----------------------------------|-------------------------------------|
| Mega Bank (and syndicate) | Vessel-Maxim | \$ 785,991 (USD26,411thousand) | \$ 1,095,113 (USD33,957thousand) |
| Mega Bank | Vessel-Chou Shan | - | 77,566 (USD 2,405thousand) |
| Mega Bank | Vessel-Madonna III | 75,114 (USD 2,524thousand) | 162,798 (USD 5,048thousand) |
| Mega Bank (and syndicate) | Vessel-Georgiana | 116,183 (USD 3,904thousand) | 251,808 (USD 7,808thousand) |
| Mega Bank (and syndicate) | Vessel-Yue Shan | 392,832 (USD13,200thousand) | 638,550 (USD19,800thousand) |
| Mega Bank (and syndicate) | Vessel-Kondor | 993,686 (USD33,390thousand) | 1,316,123 (USD40,810thousand) |
| Mega Bank (and syndicate) | Vessel-Mineral Oak | 313,522 (USD10,535thousand) | 475,655 (USD14,749thousand) |
| Mega Bank (and syndicate) | Vessel-Tai Shan | 426,832 (USD14,342thousand) | 578,181 (USD17,928thousand) |
| Mega Bank (and syndicate) | Vessel-Oceana | 393,725 (USD13,230thousand) | 487,620 (USD15,120thousand) |
| Mega Bank (and syndicate) | Vessel-Palona | 393,725 (USD13,230thousand) | 487,620 (USD15,120thousand) |
| Mega Bank (and syndicate) | Vessel-Elbhoff | 1,632,708 (USD54,863thousand) | - - |
| | | 5,524,318 | 5,571,034 |
| Less: Current portion-due within one year (shown as other current liabilities) | | (1,349,574) \$ 4,174,744 | (1,353,815) \$ 4,217,219 |
| Interest rates | | <u>2.13% ~ 3.21%</u> | <u>1.64% ~ 2.91%</u> |

The collaterals were shown as “property, plant and equipment”. Please refer to Note 8.

(6) Pensions

A. Defined benefit pension plan

- (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to qualify for retirement year, the Company will make contributions to cover the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Present value of defined benefit obligations | (\$ 61,530) | (\$ 71,181) |
| Fair value of plan assets | <u>28,052</u> | <u>40,705</u> |
| Net defined benefit liability | (\$ 33,478) | (\$ 30,476) |
| Plan assets contributed in transit | <u>98</u> | <u>-</u> |
| Net liabilities recognised in the balance sheet | <u>(\$ 33,380)</u> | <u>(\$ 30,476)</u> |

(c) Movements in net defined benefit liabilities are as follows:

| | <u>Present value of defined benefit obligations</u> | <u>Fair value of plan assets</u> | <u>Net defined benefit liability</u> |
|--|---|--------------------------------------|--|
| Year ended December 31, 2017 | | | |
| Balance at January 1 | (\$ 71,181) | \$ 40,705 | (\$ 30,476) |
| Current service cost | (1,184) | - | (1,184) |
| Interest (expense) income | (854) | 488 | (366) |
| | <u>(73,219)</u> | <u>41,193</u> | <u>(32,026)</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - (69) | (69) | (69) |
| Change in financial assumptions | (1,550) | - | (1,550) |
| Experience adjustments | (923) | - | (923) |
| | <u>(2,473)</u> | <u>(69)</u> | <u>(2,542)</u> |
| Pension fund contribution | - | 1,090 | 1,090 |
| Paid pension | <u>14,162</u> | <u>(14,162)</u> | <u>-</u> |
| Balance at December 31 | <u>(\$ 61,530)</u> | <u>\$ 28,052</u> | <u>(\$ 33,478)</u> |

| | Present value of defined benefit obligations | Fair value of plan assets | Net defined benefit liability |
|--|--|------------------------------|----------------------------------|
| Year ended December 31, 2016 | | | |
| Balance at January 1 | (\$ 65,889) | \$ 39,034 | (\$ 26,855) |
| Current service cost | (1,169) | - | (1,169) |
| Interest (expense) income | (1,054) | 625 | (429) |
| | (68,112) | 39,659 | (28,453) |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in interest income or expense) | - | (237) | (237) |
| Change in financial assumptions | (2,106) | - | (2,106) |
| Experience adjustments | (963) | - | (963) |
| | (3,069) | (237) | (3,306) |
| Pension fund contribution | - | 1,283 | 1,283 |
| Balance at December 31 | (\$ 71,181) | \$ 40,705 | (\$ 30,476) |

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

| | For the years ended December 31, | |
|-------------------------|----------------------------------|-------|
| | 2017 | 2016 |
| Discount rate | 0.90% | 1.20% |
| Future salary increases | 3.25% | 3.25% |

Future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

| | Discount rate | | Future salary increases | |
|---|----------------|----------------|-------------------------|----------------|
| | Increase 0.25% | Decrease 0.25% | Increase 0.25% | Decrease 0.25% |
| December 31, 2017 | | | | |
| Effect on present value of defined benefit obligation | (\$ 1,296) | \$ 1,339 | \$ 1,153 | (\$ 1,124) |
| December 31, 2016 | | | | |
| Effect on present value of defined benefit obligation | (\$ 1,329) | \$ 1,374 | \$ 1,168 | (\$ 1,137) |

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (f) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2018 amounts to \$1,180.

B. Defined contribution pension plan

- (a) Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016 were \$2,733 and \$2,606, respectively.
- (b) The Company’s mainland China subsidiary, Haihu Maritime Service (Shanghai) Co., Ltd. has a defined contribution retirement plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on the employees’ monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations. The pension costs for the years ended December 31, 2017 and 2016 were \$1,257 and \$1,680, respectively.

(7) Share capital

As of December 31, 2017 and 2016, the Company’s authorised capital was \$7,000,000, consisting of 700,000 thousands shares of common stock, and the paid-in capital was \$5,683,042, consisting of 568,304,171 common shares with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

(8) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

| | 2017 | | |
|---|-------------------|-----------------|------------------|
| | Overdue unclaimed | | |
| | At January 1 | cash dividends | At December 31 |
| Treasury share transactions | \$ 39,243 | \$ - | \$ 39,243 |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | 10,350 | - | 10,350 |
| Other | - | 1,432 | 1,432 |
| Total | <u>\$ 49,593</u> | <u>\$ 1,432</u> | <u>\$ 51,025</u> |

| | 2016 | | |
|---|-------------------|----------------|------------------|
| | Overdue unclaimed | | |
| | At January 1 | cash dividends | At December 31 |
| Treasury share transactions | \$ 39,243 | \$ - | \$ 39,243 |
| Difference between consideration and carrying amount of subsidiaries acquired or disposed | 10,350 | - | 10,350 |
| Other | - | - | - |
| Total | <u>\$ 49,593</u> | <u>\$ -</u> | <u>\$ 49,593</u> |

(9) Retained earnings

A. Based on the Company's Articles of Incorporation, the Company's net income (less income taxes and prior years' losses, if any) is appropriated in the following order:

(a) 10% for legal reserve.

(b) Special reserve.

(c) Appropriation of remaining earnings according to the decision of the Board of Directors and stockholders.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit

balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. Appropriation of earnings

- (a) The appropriation of 2016 and 2015 earnings had been resolved at the stockholders' meeting on June 23, 2017 and June 29, 2016, respectively. Details are summarized below:

| | 2016 | | 2015 | |
|----------------------------------|-------------------|--|-------------------|--|
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | \$ 60,015 | | \$ 94,439 | |
| (Reversal of) special reserve | 30,170 | | (365,770) | |
| Cash dividends | 397,813 | \$ 0.70 | 568,304 | \$ 1.00 |
| | <u>\$ 487,998</u> | | <u>\$ 296,973</u> | |

- (b) Subsequent events: the appropriation of 2017 earnings had been proposed by the Board of Directors on March 28, 2018. Details are summarized below:

| | 2017 | |
|-----------------|---------------------|--|
| | Amount | Dividends per share (in dollars) |
| Legal reserve | \$ 51,140 | |
| Special reserve | 1,449,439 | |
| Cash dividends | 340,983 | \$ 0.60 |
| | <u>\$ 1,841,562</u> | |

As of March 28, 2018, aforementioned appropriations of 2017 earnings had not been resolved at the shareholders' meeting yet.

- E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(16).

(10) Operating revenue

| | For the years ended December 31, | |
|---------------------|----------------------------------|---------------------|
| | 2017 | 2016 |
| Bulk carrier | \$ 2,376,345 | \$ 2,536,145 |
| Oil tanker | 940,272 | 951,485 |
| Management service | 2,202 | 1,987 |
| Supervision revenue | 13,044 | - |
| | <u>\$ 3,331,863</u> | <u>\$ 3,489,617</u> |

(11) Other income and expenses

- A. The vessel charter agreement between Everprime Shipping Limited and Nippon Yusen Kaisha was terminated on December 10, 2017 prior to the maturity. The Group has collected the compensation on December 28, 2017 and recognized net compensation income (claims of US\$378 thousand less related costs) amounting to \$10,720 (US\$352 thousand).
- B. The vessel charter agreement between Poseidon Marine Ltd and Nippon Yusen Kaisha was terminated on June 9, 2017 prior to the maturity. The Group has collected the compensation on June 30, 2017 and recognized net compensation income (claims of US\$1,364 thousand less related costs) amounting to \$40,121 (US\$1,318 thousand).
- C. The vessel charter agreement between Clifford Navigation Corporation and Nippon Yusen Kaisha was terminated on June 1, 2016 prior to the maturity. The Group has collected the compensation on June 30, 2016 and recognized net compensation income (claims of US\$1,548 thousand less related costs) amounting to \$48,490 (US\$1,503 thousand).

(12) Other income

| | For the years ended December 31, | |
|-----------------------------|----------------------------------|------------------|
| | 2017 | 2016 |
| Interest income | \$ 34,474 | \$ 29,265 |
| Overdue unclaimed dividends | - | 1,202 |
| Others | 11,655 | 13,351 |
| Total | <u>\$ 46,129</u> | <u>\$ 43,818</u> |

(13) Other gains and losses

| | For the years ended December 31, | |
|---|----------------------------------|------------------|
| | 2017 | 2016 |
| Net currency exchange gains | \$ 113,372 | \$ 23,723 |
| Loss on disposal of property, plant and equipment | - | (40) |
| Others | (15) | (3,547) |
| Total | <u>\$ 113,357</u> | <u>\$ 20,136</u> |

(14) Finance costs

| | For the years ended December 31, | |
|-------------------|----------------------------------|-------------------|
| | 2017 | 2016 |
| Interest expense: | | |
| Bank borrowings | \$ 173,239 | \$ 136,392 |
| Finance costs | <u>\$ 173,239</u> | <u>\$ 136,392</u> |

(15) Expenses by nature

| | For the years ended December 31, | | | | | |
|--------------------------|----------------------------------|--------------------|------------|-----------------|--------------------|------------|
| | 2017 | | | 2016 | | |
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Employee benefit expense | \$ 458,047 | \$ 79,368 | \$ 537,415 | \$ 579,829 | \$ 92,006 | \$ 671,835 |
| Depreciation | 1,271,444 | 936 | 1,272,380 | 1,340,292 | 875 | 1,341,167 |

Note: The above information includes related costs and expenses of discontinued operation.

(16) Employee benefit expense

| | For the years ended December 31, | | | | | |
|---------------------------------|----------------------------------|--------------------|-------------------|-------------------|--------------------|-------------------|
| | 2017 | | | 2016 | | |
| | Operating costs | Operating expenses | Total | Operating costs | Operating expenses | Total |
| Wages and salaries | \$ 378,110 | \$ 69,910 | \$ 448,020 | \$ 472,715 | \$ 81,893 | \$ 554,608 |
| Labor and health insurance fees | 2,737 | 3,486 | 6,223 | 2,838 | 3,584 | 6,422 |
| Pension costs | 1,343 | 4,197 | 5,540 | 1,379 | 4,505 | 5,884 |
| Other personnel expenses | 75,857 | 1,775 | 77,632 | 102,897 | 2,024 | 104,921 |
| Total | <u>\$ 458,047</u> | <u>\$ 79,368</u> | <u>\$ 537,415</u> | <u>\$ 579,829</u> | <u>\$ 92,006</u> | <u>\$ 671,835</u> |

Note: The above information includes related costs and expenses of discontinued operation.

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 1% for employees' compensation and shall not be higher than 5% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$11,064 and \$12,026, respectively; while directors' and supervisors' remuneration was accrued at \$11,064 and \$12,026, respectively. The aforementioned amounts were recognized in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 1.8% of distributable profit of current year for the year ended December 31, 2017. The employees' compensation and directors' and supervisors' remuneration resolved by the Board of Directors were \$11,064, and the employees' compensation will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration of 2016 were \$12,026, as resolved by the Board of Directors and were in agreement with those amounts recognised in the 2016 financial statements.

(17) Income tax

A. Income tax expense

(a) Components of income tax expense:

| | For the years ended December 31, | |
|---|----------------------------------|------------|
| | 2017 | 2016 |
| Current tax: | | |
| Current tax on profits for the year | \$ 124,287 | \$ 142,879 |
| Tax on undistributed surplus earnings | 10,940 | 64,575 |
| Adjustments in respect of prior years | 1,752 | - |
| Total current tax | 136,979 | 207,454 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (55,821) | (29,905) |
| Total deferred tax | (55,821) | (29,905) |
| Income tax expense | \$ 81,158 | \$ 177,549 |

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

| | For the years ended December 31, | |
|--|----------------------------------|----------|
| | 2017 | 2016 |
| Remeasurement of defined benefit obligations | (\$ 432) | (\$ 562) |

B. Reconciliation between income tax expense and accounting profit

| | For the years ended December 31, | |
|--|----------------------------------|------------|
| | 2017 | 2016 |
| Tax calculated based on profit before tax and statutory tax rate | \$ 100,734 | \$ 132,208 |
| Effects from items disallowed by tax regulation | 38 | (157) |
| Tax on undistributed earnings | 10,940 | 64,575 |
| Adjustments in respect of prior years | 1,752 | - |
| Unrealized investments income | (31,750) | (19,077) |
| Others | (556) | - |
| Income tax expense | \$ 81,158 | \$ 177,549 |

C. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

| 2017 | | | | |
|----------------------------------|---------------------|---------------------------------|---|--------------------|
| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
| Temporary differences: | | | | |
| — Deferred tax assets: | | | | |
| Unrealised exchange loss | \$ 413 | (\$ 413) | \$ - | \$ - |
| Unfunded pension expense | 5,181 | 61 | 432 | 5,674 |
| Unused compensated absences | 378 | (56) | - | 322 |
| Subtotal | <u>\$ 5,972</u> | <u>(\$ 408)</u> | <u>\$ 432</u> | <u>\$ 5,996</u> |
| — Deferred tax liabilities: | | | | |
| Unrealized investments income | (145,287) | 58,268 | - | (87,019) |
| Unrealised exchange gain | - | (2,039) | - | (2,039) |
| Subtotal | <u>(\$ 145,287)</u> | <u>\$ 56,229</u> | <u>\$ -</u> | <u>(\$ 89,058)</u> |
| Total | <u>(\$ 139,315)</u> | <u>\$ 55,821</u> | <u>\$ 432</u> | <u>(\$ 83,062)</u> |

| 2016 | | | | |
|----------------------------------|---------------------|---------------------------------|---|---------------------|
| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
| Temporary differences: | | | | |
| — Deferred tax assets: | | | | |
| Unrealised exchange loss | \$ 20,651 | (\$ 20,238) | \$ - | \$ 413 |
| Unfunded pension expense | 4,551 | 68 | 562 | 5,181 |
| Unused compensated absences | 355 | 23 | - | 378 |
| Subtotal | <u>\$ 25,557</u> | <u>(\$ 20,147)</u> | <u>\$ 562</u> | <u>\$ 5,972</u> |
| — Deferred tax liabilities: | | | | |
| Unrealized investments income | (195,339) | 50,052 | - | (145,287) |
| Subtotal | <u>(\$ 195,339)</u> | <u>\$ 50,052</u> | <u>\$ -</u> | <u>(\$ 145,287)</u> |
| Total | <u>(\$ 169,782)</u> | <u>\$ 29,905</u> | <u>\$ 562</u> | <u>(\$ 139,315)</u> |

- D. The Company has not recognised taxable temporary differences associated with investment in subsidiaries as deferred tax liabilities. As of December 31, 2017 and 2016, the amounts of temporary differences unrecognized as deferred tax liabilities were \$16,618,600 and \$17,881,267, respectively.
- E. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority while the income tax returns through 2014 have not been assessed and approved.
- F. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed.

Unappropriated retained earnings on December 31, 2016:

| | <u>December 31, 2016</u> |
|---------------------------------------|--------------------------|
| Earnings generated in and before 1997 | \$ 359,267 |
| Earnings generated in and after 1998 | <u>7,709,827</u> |
| | <u>\$ 8,069,094</u> |

- G. As of December 31, 2016, the balance of the imputation tax credit account was \$1,158,108. The creditable tax rate was 17.72% for the year ended December 31, 2016.

(18) Earnings per share

| For the year ended December 31, 2017 | | | |
|---|-------------------|--|------------------------------------|
| | Amount after tax | Weighted average number of ordinary shares outstanding (share in thousands) | Earnings per share (in dollars) |
| <u>Basic earnings per share</u> | | | |
| Profit from continuing operations attributable to the parent | \$ 507,295 | | \$ 0.89 |
| Profit from discontinued operation attributable to the parent | 4,101 | | 0.01 |
| Profit attributable to ordinary shareholders of the parent | <u>\$ 511,396</u> | <u>568,304</u> | <u>\$ 0.90</u> |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 507,295 | | \$ 0.89 |
| Profit from discontinued operation attributable to the parent | 4,101 | | 0.01 |
| Assumed conversion of all dilutive potential ordinary shares - employees' compensation | - | 523 | - |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | <u>\$ 511,396</u> | <u>568,827</u> | <u>\$ 0.90</u> |

| For the year ended December 31, 2016 | | | |
|--|-------------------|--|------------------------------------|
| | Amount after tax | Weighted average number of ordinary shares outstanding (share in thousands) | Earnings per share (in dollars) |
| <u>Basic earnings per share</u> | | | |
| Profit from continuing operations attributable to the parent | \$ 444,146 | | \$ 0.79 |
| Loss from discontinued operation attributable to the parent | 156,000 | | 0.27 |
| Profit attributable to ordinary shareholders of the parent | <u>\$ 600,146</u> | <u>568,304</u> | <u>\$ 1.06</u> |
| <u>Diluted earnings per share</u> | | | |
| Profit attributable to ordinary shareholders of the parent | \$ 444,146 | | \$ 0.79 |
| Loss from discontinued operation attributable to the parent | 156,000 | | 0.26 |
| Assumed conversion of all dilutive potential ordinary shares - employees' compensation | - | 617 | - |
| Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares | <u>\$ 600,146</u> | <u>568,921</u> | <u>\$ 1.06</u> |

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

| <u>Names of related parties</u> | <u>Relationship with the Company</u> |
|--|--------------------------------------|
| Universal Mariners S.A.(U.M.S.A.) | Other related party |
| Oak Maritime (Hong Kong) Inc. Limited (Oak HK) | Other related party |
| Oak Maritime (Agencies) Inc. (Oak) | Other related party |

(2) Significant related party transactions and balances

A. Operating revenues

| | For the years ended December 31, | |
|----------------------|----------------------------------|-----------------|
| | 2017 | 2016 |
| Management revenue : | | |
| U.M.S.A. | \$ 2,202 | \$ 1,987 |
| Supervision revenue: | | |
| U.M.S.A. | 13,044 | - |
| | <u>\$ 15,246</u> | <u>\$ 1,987</u> |

Management revenue is the agent revenue arising from vessel agent contract. Supervision revenue is the service revenue received from other related-parties due to provide supervision service when laying down a new ship. Sales of service are based on the price lists in force and terms that would be available to third parties.

B. Operating costs

| | For the years ended December 31, | |
|------------------------------|----------------------------------|-----------------|
| | 2017 | 2016 |
| Agency fee: | | |
| U.M.S.A. | \$ 296 | \$ 309 |
| Technical service agreement: | | |
| U.M.S.A. | 6,844 | 9,055 |
| | <u>\$ 7,140</u> | <u>\$ 9,364</u> |

C. Operating expenses

| | For the years ended December 31, | |
|----------------------|----------------------------------|------------------|
| | 2017 | 2016 |
| Management fee: | | |
| U.M.S.A. | \$ 22,417 | \$ 43,572 |
| Commissions expense: | | |
| U.M.S.A. | 1,232 | 1,074 |
| | <u>\$ 23,649</u> | <u>\$ 44,646</u> |

D. Vessel cost

| | For the years ended December 31, | |
|------------------|----------------------------------|----------|
| | 2017 | 2016 |
| Supervision fee: | | |
| U.M.S.A. | \$ 13,991 | \$ 4,839 |

The supervision fees for building the new vessels paid by the Group to other related party were capitalized as vessel costs.

E. Other receivables

Amounts prepaid on behalf of related parties and agents:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------|--------------------------|--------------------------|
| Oak | \$ 25,482 | \$ 17,710 |
| Other related party | 5 | 5 |
| | <u>\$ 25,487</u> | <u>\$ 17,715</u> |

F. Other payables

Advances from related parties and agency payable:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------|--------------------------|--------------------------|
| Other related party | \$ 337 | \$ 106 |

G. Guarantee transactions

The other related party guarantees the building of new vessels provided to the Group as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------|-----------------------------|-----------------------------|
| Oak HK | <u>US\$ 31,900 thousand</u> | <u>US\$ 38,280 thousand</u> |

H. Other guarantee transactions

Please refer to Note 6(4) for details.

(3) Key management compensation

| | <u>For the years ended December 31,</u> | |
|---|---|------------------|
| | <u>2017</u> | <u>2016</u> |
| Salaries and other short-term employee benefits | \$ 32,097 | \$ 24,090 |
| Post-employment benefits | 352 | 270 |
| Total | <u>\$ 32,449</u> | <u>\$ 24,360</u> |

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

| | Book value | | Purpose |
|---|----------------------|----------------------|--|
| | December 31, 2017 | December 31, 2016 | |
| Time deposits (shown as other current assets) | \$ 493,499 | \$ 415,582 | Long-term loans |
| Guarantee deposits paid (shown as other non-current assets) | 7,362 | 7,381 | Deposit |
| Vessels and equipment-net | 14,499,525 | 16,291,717 | Long-term loans |
| Land and building-net | 101,386 | 101,954 | Credit lines of short-term borrowings |
| | <u>\$ 15,101,772</u> | <u>\$ 16,816,634</u> | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

The Group's vessel named "Chou Shan" of the subsidiary – Rockwell Shipping Limited (Rockwell) collided with another vessel outside of Chang Jiang, Shanghai on March 19, 2013 and part of the hull and some machinery of the vessel was damaged. Owing to the incident, M/V Chou Shan should be repaired and off-hired. Shanghai Maritime Safety Administration demanded that the Company provide a security deposit to cover the public emergency response costs. Rockwell remitted the cash deposit amounting to RMB 25 million (shown as other receivables) to the Shanghai Maritime Safety Administration. Subsequently, M/V Chou Shan was released and resumed its voyage on May 11, 2013.

A lawsuit has been filed with the competent court in the People's Republic of China. The insurance company has been authorized to act for Rockwell during the judgment process. Most of the loss from operation interruption, loss of hire and repair cost of machinery claims had been recovered from the insurance. The responsibility for the pollution and collision shall be determined by the final unappealable judgment and be recovered from the insurance company. Therefore, there is no material effect on the Group's financial position.

The receivables arising from the incident were recognized as follows:

| | | December 31, 2017 | December 31, 2016 |
|-------------|--------------------|-------------------------------------|-------------------------------------|
| Other | | | |
| receivables | - security deposit | \$ 101,108 (RMB 20,521 thousand) | \$ 109,567 (RMB 20,521 thousand) |
| | - insurance claim | 11,581 (USD 389 thousand) | 12,550 (USD 389 thousand) |
| | | <u>\$ 112,689</u> | <u>\$ 122,117</u> |

(2) Commitments

A. The Group had the following outstanding vessel charter agreements as of December 31, 2017:

| <u>Contract Company</u> | <u>Contract period</u> | <u>Content</u> |
|-------------------------|----------------------------------|-----------------|
| RIO TINTO (Singapore) | September 2011 to September 2018 | Vessel-Tai Shan |

Expected receivables arising from the outstanding vessel charter agreements were as follows:

| | (in USD thousands) | |
|---|--------------------------|--------------------------|
| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
| Not later than one year | \$ 5,771 | \$ 44,884 |
| Later than one year but not over five years | - | 7,023 |
| Over five years | - | - |
| | <u>\$ 5,771</u> | <u>\$ 51,907</u> |

B. The Company issued notes payable as guarantee for credit lines. Please refer to Note 6(4) for details.

C. The Company's subsidiaries have shipbuilding agreements with several shipbuilding companies. Under these agreements, the total paid construction commitments are divided into four to five installments. 30~50% of the amount should be paid before the ships are delivered while the remaining amount should be paid upon delivery of the ships.

| | (in USD thousands) | |
|----------------------------|--------------------------|--------------------------|
| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
| Total contract price | \$ 63,800 | \$ 158,800 |
| Amount paid | (31,900) | (54,020) |
| Outstanding balance amount | <u>\$ 31,900</u> | <u>\$ 104,780</u> |

D. As of December 31, 2017, outstanding balance amount arising from acquisition of vessel's equipment amounted to \$19,582 (USD 658 thousand)

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) The appropriation of 2017 earnings was proposed by the Board of Directors. Please refer to Note 6(9) D.

(2) The amendments to the Income Tax Act were promulgated by the President of the Republic of China on February 7, 2018 effective from January 1, of which are significant to the Company as follows:

A. Under the amendments, the Company's applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase both the Company's deferred tax assets and deferred tax liabilities by 3% as of December 31, 2017, and increase current income tax expense accordingly.

- B. Under the amendments to the Income Tax Act, the imputation tax system will be abolished and the imputation credit account will be adjusted to zero beginning January 1, 2018.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Fair value information of financial instruments

The Group's financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable, other receivables, other assets, short-term loans, other payables and long-term loans (including current portion)) are approximate to their fair values.

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and JPY. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

- ii. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; other certain subsidiaries' functional currency: USD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| December 31, 2017 | | | |
|--|------------------|---------------|---------------------|
| (Foreign currency: functional currency) | Foreign currency | | Book value (NTD) |
| | amount | Exchange rate | |
| | (In thousands) | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 9,206 | 29.76 | \$ 274,306 |
| NTD:USD | 10,198 | 0.03 | 10,151 |
| JPY: USD | 613 | 0.01 | 162 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 53,726 | 29.76 | \$ 1,598,924 |

| December 31, 2016 | | | |
|--|------------------|---------------|---------------------|
| (Foreign currency: functional currency) | Foreign currency | | Book value (NTD) |
| | amount | Exchange rate | |
| | (In thousands) | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 8,070 | 32.25 | \$ 260,198 |
| NTD:USD | 4,954 | 0.03 | 4,952 |
| JPY: USD | 11,457 | 0.01 | 3,158 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 55,737 | 32.25 | \$ 1,797,477 |

- iii. Please refer to the following table for the details of unrealized exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group.

| Year ended December 31, 2017 | | | |
|---|--------------------------|---------------|---------------------|
| Exchange gain (loss) | | | |
| (Foreign currency: functional currency) | Foreign currency | | Book value (NTD) |
| | amount (In thousands) | Exchange rate | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ - | 29.76 | (\$ 10,842) |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ - | 29.76 | \$ 120,048 |
| | | | |
| Year ended December 31, 2016 | | | |
| Exchange gain (loss) | | | |
| (Foreign currency: functional currency) | Foreign currency | | Book value (NTD) |
| | amount (In thousands) | Exchange rate | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ - | 32.25 | \$ 5,598 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ - | 32.25 | \$ 8,526 |

iv. Analysis of foreign currency market risk arising from significant foreign exchange variation:

| | Year ended December 31, 2017 | | | |
|---|------------------------------|--------------------------|--------------------------------------|---|
| | Sensitivity analysis | | | |
| | Degree of variation | Effect on profit or loss | Effect on other comprehensive income | |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ 2,743 | \$ | - |
| NTD:USD | 1% | 102 | | - |
| JPY: USD | 1% | 2 | | - |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ 15,989 | \$ | - |

| Year ended December 31, 2016 | | | | |
|---|---------------------|--------------------------|--------------------------------------|---|
| Sensitivity analysis | | | | |
| | Degree of variation | Effect on profit or loss | Effect on other comprehensive income | |
| (Foreign currency: functional currency) | | | | |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ 2,602 | \$ | - |
| NTD:USD | 1% | 50 | | - |
| JPY: USD | 1% | 32 | | - |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ 17,975 | \$ | - |

Interest rate risk

- i. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the years ended December 31, 2017 and 2016, the Group's borrowings at variable rate were denominated in United States dollars.
- ii. The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate

shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

- iii. At December 31, 2017 and 2016, if interest rates on USD-denominated borrowings had been 1% higher/lower with all other variables held constant, pre-tax profit for the years ended December 31, 2017 and 2016 would have been \$55,243 and \$55,710 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and service terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to charterers, including outstanding receivables.
- ii. No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- iii. The ageing analysis of accounts receivable is as follows:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------|--------------------------|--------------------------|
| Not past due nor impaired | \$ 255,982 | \$ 263,718 |
| Past due but not impaired | | |
| Up to 1 year | \$ 810 | \$ 79 |
| Over 1 year | \$ 374 | \$ 295 |

The Group signed the charter agreements with well-known international charterers and oil carriers belonging to the Tankers International Pool. The Group received and wrote-off accounts receivable based on contracts.

The Group assessed its accounts receivable that were past due but not impaired and determined that there were no significant changes in credit quality and the related accounts receivable could also be collected. Therefore, these receivables were not impaired.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity

requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, external regulatory or legal requirements.

- ii. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury.
- iii. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

| December 31, 2017 | Up to 1 year | Between 1 year and 5 years | Over 5 years |
|---|--------------|-------------------------------|--------------|
| Short-term borrowings | \$ 760,000 | \$ - | \$ - |
| Other payables (including related parties) | 218,043 | - | - |
| Long-term borrowings (including current portion) | 1,498,838 | 3,431,840 | 1,052,562 |

Non-derivative financial liabilities:

| December 31, 2016 | Up to 1 year | Between 1 year and 5 years | Over 5 years |
|---|--------------|-------------------------------|--------------|
| Short-term borrowings | \$ 740,000 | \$ - | \$ - |
| Other payables (including related parties) | 240,130 | - | - |
| Long-term borrowings (including current portion) | 1,485,605 | 3,924,409 | 501,288 |

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: Please refer to table 3.

- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 5.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 6.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 7.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Group's Chief Operating Decision-Maker operates businesses by the type of carriers. Under IFRS 8, the reportable segments are bulk carrier segment and oil tanker segment.

There is no material change in the basis for formation of entities and division of segments in the Group or in the measurement basis for segment information in this period.

(2) Measurement of segment information

The Chief Operating Decision-Maker assesses the performance of the operating segments based on the profit or loss before income tax. This measurement basis excludes the effects of non-recurring expenditures from the operating segments.

(3) Information about segment profit or loss

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

| For the year ended December 31, 2017 | | | | |
|--------------------------------------|--------------|------------|----------------|--------------|
| | Bulk carrier | Oil tanker | Other segments | Total |
| Revenue from third parties | \$ 2,376,345 | \$ 940,272 | \$ 15,246 | \$ 3,331,863 |
| Segment income | \$ 495,417 | \$ 100,379 | \$ 15,246 | \$ 611,042 |

| For the year ended December 31, 2016 | | | | |
|--------------------------------------|--------------|------------|----------------|--------------|
| | Bulk carrier | Oil tanker | Other segments | Total |
| Revenue from third parties | \$ 2,536,145 | \$ 951,485 | \$ 1,987 | \$ 3,489,617 |
| Segment income | \$ 368,221 | \$ 372,699 | \$ 1,987 | \$ 742,907 |

(4) Reconciliation for segment income (loss)

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income.

Reconciling profit or loss before income tax and interest expense of reportable segments to income from continuing operations before income tax is as follows:

| For the years ended December 31, | | |
|--|------------|------------|
| | 2017 | 2016 |
| Reportable segment income | \$ 595,796 | \$ 740,920 |
| Other segment income | 15,246 | 1,987 |
| Total operating segment income | 611,042 | 742,907 |
| Others | 120,592 | 26,443 |
| Income from continuing operations before tax | \$ 731,634 | \$ 769,350 |

(5) The Group's transportation services are managed transnationally. Operating results from services cannot be meaningfully separated according to specific area, thus, geographical information is not presented.

(6) Major customer information

For the years ended December 31, 2017 and 2016, major customers with revenue representing 10% or above of the Group's total revenue are as follows (including revenue from discontinued operations):

| | For the years ended December 31, | | | |
|------------|----------------------------------|--------------|------------|--------------|
| | 2017 | | 2016 | |
| | Revenues | Segment | Revenues | Segment |
| Customer A | \$ 672,371 | Oil tanker | \$ 873,395 | Oil tanker |
| Customer B | 664,129 | Bulk carrier | 1,190,258 | Bulk carrier |
| Customer C | 524,302 | Bulk carrier | 455,635 | Bulk carrier |

Sincere Navigation Corporation and subsidiaries

Loans to others

For the year ended December 31, 2017

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

| No. (Note 1) | Creditor | Borrower | General ledger account | Is a related party | Maximum outstanding balance during the year ended December 31, 2017 | Balance at December 31, 2017 | Actual amount drawn down | Interest rate | Nature of loan (Note 3) | Amount of transactions with the borrower | Reason for short-term financing | Allowance for doubtful accounts | Collateral Item | Value | Limit on loans granted to a single party (Note 2) | Ceiling on total loans granted (Note 2) | Footnote |
|-----------------|--------------------------------------|--------------------------------------|--|--------------------------|--|------------------------------------|-----------------------------|------------------|-------------------------------|---|---------------------------------------|--|--------------------|-------|--|--|--|
| 0 | Sincere Navigation Corporation | None | | | | | | | | | | | | | \$ 4,644,213 | \$ 6,192,284 | |
| 1 | Norley Corporation Inc. | Sincere Navigation Corporation | Other receivables - related parties | Y | \$ 1,971,450 | \$ 892,800 | 892,800 | - | 2 | \$ - | Working capital | \$ - | - | \$ - | 3,633,395 | 4,844,526 | The Maximun amount amounted to USD 65,000,000 for the current period, and the actural amount to USD 30,000,000 in the end of period. |
| 2 | Heywood Limited | Sincere Navigation Corporation | Other receivables - related parties | Y | 1,364,850 | 595,200 | 595,200 | - | 2 | - | Working capital | - | - | - | 1,528,401 | 2,037,868 | The Maximun amount amounted to USD 45,000,000 for the current period, and the actural amount to USD 20,000,000 in the end of period. |

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: In accordance with the finance procedures of the Company, for business transaction purposes, maximum financing to each subsidiary and total financing is limited to 30% and 40% of the Company's net value, respectively.

For short-term lending purpose, maximum financing to each subsidiary and total financing is limited 30% to 40% of the Company's net value, respectively. The maximum financing between the subsidiaries which are directly or indirectly 100% owned by the Company is limited to 100% of the lender's net value.

Note 3: Nature of loans is filled as follows:

(1) Fill in 1 for business transactions.

(2) Fill in 2 for short-term financing.

Sincere Navigation Corporation and subsidiaries
Provision of endorsements and guarantees to others
For the year ended December 31, 2017

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

| Number (Note 1) | Endorser/ guarantor | Party being endorsed/guaranteed | | Limit on endorsements/ guarantees provided for a single party (Note 3) | Maximum outstanding endorsement/ guarantee amount as of December 31, 2017 | Outstanding endorsement/ guarantee amount at December 31, 2017 | Actual amount drawn down | Amount of endorsements/ guarantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company | Ceiling on total amount of endorsements/ guarantees provided (Note 3) | Provision of endorsements/ guarantees by parent company to subsidiary (Note 4) | Provision of endorsements/ guarantees by subsidiary to parent company (Note 4) | Provision of endorsements/ guarantees to the party in Mainland China (Note 4) | Footnote |
|--------------------|--------------------------------------|------------------------------------|--|---|---|---|-----------------------------|--|--|--|--|--|---|--|
| | | Company name | Relationship with the endorser/ guarantor (Note 2) | | | | | | | | | | | |
| 0 | Sincere Navigation Corporation | Helmsman Navigation Co. Ltd. | 3 | \$ 15,480,710 | \$ 609,525 | \$ 421,848 | \$ 393,725 | \$ - | 56.13% | \$ 38,701,775 | Y | N | N | Guarantee balance is US\$ 14,175 thousand |
| 0 | " | Keystone Shipping Co. Ltd. | 3 | 15,480,710 | 609,525 | 562,464 | 393,725 | - | 56.13% | 38,701,775 | Y | N | N | Guarantee balance is US\$ 18,900 thousand |
| 0 | " | Rockwell Shipping Limited | 3 | 15,480,710 | 77,566 | - | - | - | 56.13% | 38,701,775 | Y | N | N | - |
| 0 | " | Crimson Marine Company | 3 | 15,480,710 | 503,616 | 464,732 | 116,183 | - | 56.13% | 38,701,775 | Y | N | N | Guarantee balance is US\$ 15,616 thousand |
| 0 | " | Ocean Wise Limited | 3 | 15,480,710 | 611,557 | 564,339 | 313,522 | - | 56.13% | 38,701,775 | Y | N | N | Guarantee balance is US\$ 18,963 thousand |
| 0 | " | Maxson Shipping Inc. | 3 | 15,480,710 | 867,272 | 480,186 | 426,832 | - | 56.13% | 38,701,775 | Y | N | N | Guarantee balance is US\$ 16,135 thousand |

| Number (Note 1) | Endorser/ guarantor | Party being endorsed/guaranteed | | Limit on endorsements/ guarantees provided for a single party (Note 3) | Maximum outstanding endorsement/ guarantee amount as of December 31, 2017 | Outstanding endorsement/ guarantee amount at December 31, 2017 | Actual amount drawn down | Amount of endorsements/ guarantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company | Ceiling on total amount of endorsements/ guarantees provided (Note 3) | Provision of endorsements/ guarantees by parent company to subsidiary (Note 4) | Provision of endorsements/ guarantees by subsidiary to parent company (Note 4) | Provision of endorsements/ guarantees to the party in Mainland China (Note 4) | Footnote |
|--------------------|--------------------------------------|------------------------------------|--|---|---|---|-----------------------------|--|--|--|--|--|---|--|
| | | Company name | Relationship with the endorser/ guarantor (Note 2) | | | | | | | | | | | |
| 0 | Sincere Navigation Corporation | Poseidon Marine Ltd | 3 | \$ 15,480,710 | \$ 957,825 | \$ 883,872 | \$ 392,832 | - | 56.13% | \$ 38,701,775 | Y | N | N | Guarantee balance is US\$ 29,700 thousand |
| 0 | " | Everwin Maritime Limited | 3 | 15,480,710 | 1,095,113 | 1,010,560 | 785,991 | - | 56.13% | 38,701,775 | Y | N | N | Guarantee balance is US\$ 33,957 thousand |
| 0 | " | Kenmore Shipping Inc. | 3 | 15,480,710 | 1,794,712 | 993,687 | 993,687 | - | 56.13% | 38,701,775 | Y | N | N | Guarantee balance is US\$ 33,390 thousand |
| 0 | " | Pacifica Maritime Limited | 3 | 15,480,710 | 2,144,625 | 1,979,040 | 1,632,708 | - | 56.13% | 38,701,775 | Y | N | N | Guarantee balance is US\$ 66,500 thousand |
| 0 | " | Ocean Grace Limited | 3 | 15,480,710 | 1,440,285 | 1,329,082 | - | - | 56.13% | 38,701,775 | Y | N | N | Guarantee balance is US\$ 44,660 thousand |

Note 1: The numbers filled in for the endorsements/ guarantees provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/ guarantor and the party being endorsed/guaranteed is classified into the following six categories:

(1)Having business relationship.

(2)The endorser/ guarantor parent company owns directly more than 50 % voting shares of the endorsed/ guaranteed subsidiary.

(3)The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.

(4)The endorsed/ guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/ guarantor subsidiary.

(5)Mutual guarantee of the trade as required by the construction contract.

(6)Due to join venture, each shareholder provides endorsements/guarantees to the endorsed/ guaranteed company in proportion to its ownership.

Note 3: In accordance with guarantee procedures of the Company, the Company's guarantee to others and total guarantee amount should not exceed 100% and 250% of the Company's net value, respectively. The guarantee amount for business transaction purposes should not exceed the total transaction amount with the Company within the current year. The total guarantee amount of the Company and its subsidiaries together should not exceed 300% of the Company of the Company's net value.

Note 4: Fill in 'Y' for those cases of provision of endorsements/ guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

Sincere Navigation Corporation and subsidiaries
Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more
For the year ended December 31, 2017

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

| Real estate acquired by | Real estate acquired | Date of the event | Transaction amount | Status of payment | Counterparty | Relationship with the counterparty | If the counterparty is a related party, information as to the last transaction of the real estate is disclosed below: | | | | Basis or reference used in setting the price | Reason for acquisition of real estate and status of the real estate |
|---------------------------------|-------------------------|----------------------|--|----------------------|---|--|--|--|--|--------|--|---|
| | | | | | | | Original owner who sold the real estate to the counterparty | Relationship between the original owner and the acquirer | Date of the original transaction | Amount | | |
| Pacifica Maritime Limited | Elbhoff | January 16, 2017 | \$ 2,901,300 (USD 95,000 thousand) | Paid | China Shipbuilding Trading Co., Ltd. Shanghai Waigaoqiao Shipbuilding Co. Ltd. | None | - | - | - | - | Acquisition cost of new ship | Operation requirement |

Sincere Navigation Corporation and subsidiaries
Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more
December 31, 2017

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as at December 31, 2017 | Turnover rate | Overdue receivables | | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|----------------------------------|--------------------------------|---------------------------------------|-------------------------------------|---------------|---------------------|--------------|---|------------------------------------|
| | | | | | Amount | Action taken | | |
| Sincere Navigation Corporation | None | | - | - | \$ - | - | \$ - | \$ - |
| Norley Corporation Inc. (Norley) | Sincere Navigation Corporation | Norley's parent company | \$ 892,800 (USD 30,000 thousand) | - | - | - | - | - |
| Heywood Limited (Heywood) | Sincere Navigation Corporation | Heywood's parent company | \$ 595,200 (USD 20,000 thousand) | - | - | - | - | - |

Table 4

Sincere Navigation Corporation and subsidiaries
Significant inter-company transactions during the reporting periods
For the year ended December 31, 2017

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction | | | Percentage of consolidated total operating revenues or total assets (Note 3) |
|--------------------|--------------------------------|--------------------------------|--------------------------|-----------------------------------|------------|-----------------------------|--|
| | | | | General ledger account | Amount | Transaction terms | |
| 0 | Sincere Navigation Corporation | Helmsman Navigation Co. Ltd. | 1 | Guarantees | \$ 421,848 | As per the Company's policy | 1.76% |
| 0 | " | Keystone Shipping Co. Ltd. | 1 | " | 562,464 | " | 2.35% |
| 0 | " | Crimson Marine Company | 1 | " | 464,732 | " | 1.94% |
| 0 | " | Ocean Wise Limited | 1 | " | 564,339 | " | 2.36% |
| 0 | " | Everwin Maritime Limited | 1 | " | 1,010,560 | " | 4.23% |
| 0 | " | Maxson Shipping Inc. | 1 | " | 480,186 | " | 2.01% |
| 0 | " | Poseidon Marine Ltd. | 1 | " | 883,872 | " | 3.70% |
| 0 | " | Kenmore Shipping Inc. | 1 | " | 993,687 | " | 4.16% |
| 0 | " | Pacifica Maritime Limited | 1 | " | 1,979,040 | " | 8.28% |
| 0 | " | Ocean Grace Limited | 1 | " | 1,329,082 | " | 5.56% |
| 1 | Norley Corporation Inc. | Sincere Navigation Corporation | 2 | Other receivables related parties | 892,800 | " | 3.74% |
| 2 | Heywood Limited | Sincere Navigation Corporation | 2 | " | 595,200 | " | 2.49% |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1)Parent company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

(1)Parent company to subsidiary is numbered '1'.

(2)Subsidiary to parent company is numbered '2'.

(3)Subsidiary to subsidiary is numbered

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the year to consolidated total operating revenues for income statement accounts.

Note 4: The inter-company transactions below 1% of consolidated assets or revenue are not disclosed.

Table 5

Sincere Navigation Corporation and subsidiaries

Information on investees

For the year ended December 31, 2017

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount (Note 1) | | Shares held as at December 31, 2017 (Note 2) | | | Net profit (loss) of the investee for the year ended December 31, 2017 (Note 2) | Investment income(loss) recognised by the Company for the year ended December 31, 2017 | Footnote |
|--------------------------------|----------------------------|---------------------|--------------------------|---------------------------------------|------------------------------------|--|---------------|---------------|--|---|--------------------------------------|
| | | | | Balance as at December 31, 2017 | Balance as at December 31, 2016 | Number of shares | Ownership (%) | Book value | | | |
| Sincere Navigation Corporation | Norley Corporation Inc. | Republic of Liberia | Investment holdings | \$ 29,760 (USD 1,000 thousand) | \$ 32,250 (USD 1,000 thousand) | 500 | 100% | \$ 12,111,316 | \$ 581,531 | \$ 581,531 | Subsidiary |
| " | Heywood Limited | Marshall Islands | " | 29,760 (USD 1,000 thousand) | 32,250 (USD 1,000 thousand) | 500 | 100% | 5,094,670 | 68,616 | 68,616 | Subsidiary |
| Norley Corporation Inc. | Valentine Holdings Limited | Republic of Liberia | " | - | 194 (USD 6 thousand) | - | - | - | 7,072 | - | Indirectly owned subsidiary (Note 3) |
| " | Kenmore Shipping Inc. | Marshall Islands | Oil tanker | 1,193,674 (USD 40,110 thousand) | 1,229,048 (USD 38,110 thousand) | 500 | 100% | 1,657,007 | 67,616 | - | Indirectly owned subsidiary |
| " | Winnington Limited | " | Investment holdings | 308,832 (USD 10,377 thousand) | 334,658 (USD 10,377 thousand) | 500 | 100% | 517,934 | 40,786 | - | Indirectly owned subsidiary |
| " | Jetwall Co. Ltd. | " | " | 1,171,830 (USD 39,376 thousand) | 1,218,276 (USD 37,776 thousand) | 400 | 80% | 1,395,568 | 1,604 | - | Indirectly owned subsidiary |
| " | Victory Navigation Inc. | " | " | 164 (USD 6 thousand) | 194 (USD 6 thousand) | 275 | 55% | 415,472 | 324,932 | - | Indirectly owned subsidiary |
| " | Kingswood Co., Ltd. | " | " | 149 (USD 5 thousand) | 161 (USD 5 thousand) | 250 | 50% | 11,662 | 3,651 | - | Indirectly owned subsidiary |
| " | Poseidon Marine Ltd | " | Shipping | 298 (USD 10 thousand) | 32,250 (USD 1,000 thousand) | 500 | 100% | 1,646,239 | 117,992 | - | Indirectly owned subsidiary |
| " | Maxson Shipping Inc. | " | " | 312,480 (USD 10,500 thousand) | 451,500 (USD 14,000 thousand) | 500 | 100% | 1,049,810 | 129,858 | - | Indirectly owned subsidiary |
| " | Ocean Wise Limited | Republic of Liberia | " | 168,623 (USD 5,666 thousand) | 162,992 (USD 5,054 thousand) | 283,305 | 51% | 473,651 | (10,405) | - | Indirectly owned subsidiary |

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held as at December 31, 2017 (Note 2) | | | Net profit (loss) | Investment income(loss) | Footnote |
|----------------------------|--------------------------------------|---------------------|--------------------------|-----------------------------------|-----------------------------------|--|-------------------|--------------|--|--|--------------------------------------|
| | | | | (Note 1) | | | | | of the investee for the year ended December 31, 2017 | recognised by the Company for the year ended | |
| | | | | Balance as at December 31, 2017 | Balance as at December 31, 2016 | (Note 2) | December 31, 2017 | | | | |
| Norley Corporation Inc. | Pacifica Maritime Limited | Marshall Islands | Oil tanker | \$ 1,362,710 (USD45,790 thousand) | \$ 1,412,228 (USD43,790 thousand) | 500 | 100% | \$ 1,389,234 | \$ 27,508 | \$ - | Indirectly owned subsidiary |
| " | Dynasty Navigation Limited | " | Holding in shipbuilding | - | 323 (USD 10 thousand) | - | - | - | (24) | - | Indirectly owned subsidiary (Note 3) |
| " | Sky Sea Maritime Limited | " | Investment holdings | 541,944 (USD18,211 thousand) | 465,271 (USD14,427 thousand) | 275 | 55% | 541,637 | (170) | - | Indirectly owned subsidiary |
| Valentine Holdings Limited | Millennia Investment Company Limited | " | Shipping | - | 323 (USD 10 thousand) | - | - | - | 6,835 | - | Indirectly owned subsidiary (Note 3) |
| " | Gemini Investment Company Limited | " | " | - | 323 (USD 10 thousand) | - | - | - | 37 | - | Indirectly owned subsidiary (Note 3) |
| Winnington Limited | Peg Shipping Company Limited | Republic of Liberia | " | 298 (USD 10 thousand) | 323 (USD 10 thousand) | 500 | 100% | 512,771 | 40,873 | - | Indirectly owned subsidiary |
| Kingswood Co., Ltd. | Seven Seas Shipping Ltd. | Marshall Islands | Oil tanker | 298 (USD 10 thousand) | 323 (USD 10 thousand) | 500 | 100% | 7,881 | 3,701 | - | Indirectly owned subsidiary |
| Jetwall Co. Ltd. | Everwin Maritime Limited | " | " | 1,464,787 (USD 49,220 thousand) | 1,522,845 (USD47,220 thousand) | 500 | 100% | 1,745,429 | 1,785 | - | Indirectly owned subsidiary |
| Victory Navigation Inc. | Everprime Shipping Limited | " | Shipping | 298 (USD 10 thousand) | 323 (USD 10 thousand) | 500 | 100% | 751,530 | 324,947 | - | Indirectly owned subsidiary |
| Sky Sea Maritime Limited | Ocean Grace Limited | " | Holding in shipbuilding | 985,354 (USD33,110 thousand) | 845,918 (USD26,230 thousand) | 500 | 100% | 985,046 | (98) | - | Indirectly owned subsidiary |
| Heywood Limited | Clifford Navigation Corporation | " | Shipping | 298 (USD 10 thousand) | 323 (USD 10 thousand) | 500 | 100% | 660,905 | 22,014 | - | Indirectly owned subsidiary |
| " | Newton Navigation Limited | " | " | 298 (USD 10 thousand) | 323 (USD 10 thousand) | 500 | 100% | 2,115 | (63) | - | Indirectly owned subsidiary |
| " | Brighton Shipping Inc. | " | " | 298 (USD 10 thousand) | 323 (USD 10 thousand) | 500 | 100% | 665,419 | 42,376 | - | Indirectly owned subsidiary |
| " | Rockwell Shipping Limited | " | " | 298 (USD 10 thousand) | 323 (USD 10 thousand) | 500 | 100% | 520,586 | 45,961 | - | Indirectly owned subsidiary |

Table 6, Page 2

| Investor | Investee | Location | Main business activities | Initial investment amount (Note 1) | | Shares held as at December 31, 2017 (Note 2) | | | Net profit (loss) of the investee for the year ended December 31, 2017 (Note 2) | Investment income(loss) recognised by the Company for the year ended December 31, 2017 | Footnote |
|-----------------|------------------------------|------------------|--------------------------|---------------------------------------|------------------------------------|--|---------------|------------|--|---|--------------------------------------|
| | | | | Balance as at December 31, 2017 | Balance as at December 31, 2016 | Number of shares | Ownership (%) | Book value | | | |
| Heywood Limited | Howells Shipping Inc. | Marshall Islands | Shipping | \$ 357,418 (USD12,010 thousand) | \$ 387,323 (USD12,010 thousand) | 500 | 100% | \$ 803,276 | \$ 3,083 | \$ - | Indirectly owned subsidiary |
| " | Crimson Marine Company | " | " | 726,084 (USD24,398 thousand) | 786,836 (USD24,398 thousand) | 500 | 100% | 341,825 | (35,933) | - | Indirectly owned subsidiary |
| " | Honco Shipping Limited | Hong Kong | Investment holdings | - | - | - | - | - | - | - | Indirectly owned subsidiary (Note 3) |
| " | Century Shipping Limited | " | " | 14,880 (USD500 thousand) | 16,125 (USD500 thousand) | 50,000 | 100% | (3,154) | 574 | - | Indirectly owned subsidiary |
| " | Helmsman Navigation Co. Ltd. | Marshall Islands | Shipping | 241,354 (USD8,110 thousand) | 261,548 (USD8,110 thousand) | 500 | 100% | 122,700 | (18,919) | - | Indirectly owned subsidiary |
| " | Keystone Shipping Co. Ltd. | " | " | 241,354 (USD8,110 thousand) | 261,548 (USD8,110 thousand) | 500 | 100% | 179,314 | 8,365 | - | Indirectly owned subsidiary |

Note 1: The above balances of initial investments as at December 31, 2017 and 2016 were translated at the closing exchange rates at the balance sheet date.

Note 2: The above carrying amounts of shares held as at December 31, 2017 and net profit (loss) of the investee for the year ended December 31, 2017 were translated at the closing exchange rates at the balance sheet and the average exchange rates for the year ended December 31, 2017, respectively.

Note 3: Valentine Holdings Limited ceased operations and was liquidated on November 3, 2017.

Dynasty Navigation Limited Limited ceased operations and was liquidated on November 3, 2017.

Millennia Investment Company Limited Limited ceased operations and was liquidated on November 3, 2017.

Gemini Investment Company Limited Limited ceased operations and was liquidated on November 3, 2017.

Honco Shipping Limited Limited ceased operations and was liquidated on September 29, 2017.

Sincere Navigation Corporation and subsidiaries
Information on investments in Mainland China
For the year ended December 31, 2017

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method (Note 1) | Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017 | Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2017 | | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 | Net income of investee as of December 31, 2017 | Ownership held by the Company (direct or indirect) | Investment income (loss) recognised by the Company for the year ended December 31, 2017 (Note 2) | Book value of investments in Mainland China as of December 31, 2017 | Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017 | Footnote |
|--|-----------------------------|-----------------|------------------------------------|--|--|----------------------------|--|---|---|---|---|--|----------|
| | | | | | Remitted to Mainland China | Remitted back to Taiwan | | | | | | | |
| Haihu Maritime Service (Shanghai) Co., Ltd. | Maritime service | \$ 15,855 | 2 | \$ 15,855 (USD 500 thousand) | \$ - | \$ - | \$ 15,855 (USD 500 thousand) | \$ 574 (RMB 127 thousand) | 100% | \$ 574 (RMB 127 thousand) | (\$ 3,154) (RMB -693 thousand) | \$ - | |

Note 1: Investment methods are classified into the following three categories.

(1)Directly invest in a company in Mainland China.

(2)Through investing in an existing company in the third area, which then invested in the investee in Mainland China. (The investee in the third area is Century Shipping Limited)

(3)Others.

Note 2: Investment income (loss) recognised during the year was based on financial statements audited by the Company's CPA.

| Company name | Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017 | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|--|---|--|---|
| Haihu Maritime Service (Shanghai) Co., Ltd. | \$ 15,855 | \$ 95,130 | \$ 9,288,426 |

Table 7