

Translation

**Financial statements of AvanStrate Korea Inc.**

Attachment: Audit report of independent auditor

16<sup>th</sup> term From April 1 2017 to March 31 2018

15<sup>th</sup> term From April 1 2016 to March 31 2017

AvanStrate Korea Inc.

## Table of Contents

Audit report of the independent auditor .....	1
Financial statements	
Financial condition statement .....	4
Profit and loss statement .....	6
Capital fluctuation statement .....	8
Cash flow statement .....	9
Notes to financial statements .....	11



Ernt and Young Han Young  
Taeyoung Building, 111, Yeouigongwon – ro,  
Yeongdeungpo – gu, Seoul 07241 Korea

Tel: 82 2 3787 6600  
Fax: + 82 2 783 5890

## **Independent auditor's audit report**

AvanStrate Korea Inc.

Dear Shareholders and Board of Directors

We have audited the financial statements of AvanStrate Korea Inc. attached separately. The said financial statements include the financial conditions table as of March 31, 2018 and March 31, 2017, the income statement for both reporting periods ending on that date, the capital change table and cash flow table, and shall consist of summary of important accounting policies and other explanatory information.

### **Management team's responsibility for financial statements**

The management prepares such financial statements in accordance with Korean general corporate accounting standards, we are also responsible for the internal control, for presenting the statements fairly and determined to be necessary for preparing financial statements without significant distortion indications caused by fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on the audit we conducted. We conducted our audit in accordance with Korea's accounting auditing standards. These standards require that we comply with ethical requirements; and we requesting that we plan and perform the audit to obtain reasonable confidence about whether there is no significant distortion indication in the financial statements.

An audit involves performing procedures to obtain audit evidence for the figures and disclosures in the financial statements. The choice of procedure will depend on the judgment of the auditor, such as the assessment of the significant distortion display risk of the financial statements due to fraud or error. The auditor considers the internal control related to the preparation and fair presentation of the financial statements of the company in order to design the audit procedure that conforms to the situation when evaluating the risk. However, this is not to express an opinion on the effectiveness of internal control. An audit also includes evaluating not only the overall presentation of financial statements but also the assessment of the suitability of accounting policies applied by management to prepare financial statements and the rationality of the accounting estimates derived by management.



We believe that the audit evidence we obtained is adequate and compatible as a basis for audit opinion.

#### **Auditor's opinion**

In our opinion, the company's financial statements are based on the financial condition of AvanStrate Korea Inc. as of March 31, 2018 and March 31, 2017 and the financial results and cash flows are in accordance with Korea's general corporate accounting standards from a viewpoint of materiality.

#### **Matters to be emphasized**

As a matter that does not affect auditor opinion, users of the audit report need to pay attention to Note 20 as against the financial statements. The company incurred an operating loss of 2,017 million won in the reporting period ending on March 31, 2018. As of the reporting period end, the company's current liabilities were 177,433 million won more than current assets, total liabilities represented 225,637 million won more than assets. Such a situation means that there is uncertainty that raises important doubt on the survival ability as a going concern as well as the other matters described in Note 20.

Representative Director, Xu Zhenxi



June 21, 2018

This audit report shall be effective currently as of the audit report date. Accordingly, there may be events or circumstances that may have significant influence on the financial statements of the companies attached between the audit report date and the point of viewing this report, due to which, the audit report may be modified.

**(Attachment) Financial Statements**

**AvanStrate Korea Inc.**

16<sup>th</sup> term  
From April 1 2017  
To March 31 2018

15<sup>th</sup> term  
From April 1 2016  
To March 31 2017

"The attached financial statements have been prepared by our company. "  
AvanStrate Korea Inc, Representative Director, Toshio Horiuchi

Head office location: (Address) 84, Hyeongoksandan-ro, Cheongbuk-myeon, Pyeongtaek-si, Gyeonggi-do  
(Telephone) 031-615-7800-1

### Financial condition statement

16<sup>th</sup> term as on March 31, 2018

15<sup>th</sup> term as on March 31, 2017

AvanStrate Korea Inc.

(Unit: Won)

Items	16 <sup>th</sup> term	15 <sup>th</sup> term
Asset		
I. Current Assets	20,375,695,716	8,234,341,367
(1) Liquid assets	19,122,923,621	6,670,459,697
1. Cash and cash assets	8,469,477,713	922,590,751
2. Trade receivables <Note 12>	7,515,827,712	3,684,070,794
Allowance for doubtful accounts	(75,158,277)	(36,840,708)
3. Accrued receivable <Note 12>	2,668,394,117	691,869,121
4. Prepayment	405,237,174	896,262,777
5. Prepaid Expenses	138,654,092	511,980,512
6. Current corporate income tax assets	491,090	526,450
(2) Inventories <Note 7>	1,252,772,095	1,563,881,670
1. Product	37,935,432	37,935,432
Provision for loss on valuation	(37,935,432)	(37,935,432)
2. Raw materials	724,302,910	1,015,059,401
Provision for loss on valuation	(109,097,660)	-
3. Work in process	736,270,114	692,788,213
Provision for loss on valuation	(171,103,613)	(171,103,613)
4. Supplies	52,886,565	27,137,669
5. Undelivered goods	19,513,779	-
II. Non-current assets	76,330,084,599	80,244,766,424
(1) Investment assets	2,000,000	2,000,000
1. Long-term financial instruments <Note 4>	2,000,000	2,000,000
(2) Tangible assets <Note 6, 7>	75,981,026,309	79,876,674,834
1. Buildings	121,234,220,129	121,234,220,129
Accumulated depreciation	(42,878,660,640)	(42,878,660,640)
Accumulated impairment loss	(78,355,559,489)	(78,355,559,489)
2. Construction	15,836,652,195	15,836,652,195
Accumulated depreciation	(15,567,684,768)	(15,567,684,768)
Accumulated impairment loss	(268,967,427)	(268,967,427)
3. Machine and equipment	228,440,121,993	213,674,050,066
Accumulated depreciation	(109,376,734,003)	(103,382,067,299)
Accumulated impairment loss	(44,669,118,388)	(44,669,118,388)
4. Vehicle transportation carrier	26,200,000	26,200,000
Accumulated depreciation	(26,200,000)	(26,200,000)
5. Fixtures	12,537,999,179	12,469,899,179
Accumulated depreciation	(10,535,364,016)	(9,754,636,115)
Accumulated impairment loss	(593,938,456)	(593,938,456)

<b>Items</b>	<b>16<sup>th</sup> term</b>		<b>15<sup>th</sup> term</b>	
6. Construction in progress	38,993,212,860		50,947,638,707	
Accumulated impairment loss	(38,815,152,860)		(38,815,152,860)	
(3) Other non-current assets		347,058,290		366,091,590
1. Guarantee deposit	298,098,290		317,131,590	
2. Other deposit	48,960,000		48,960,000	
Total assets		96,705,780,315		88,479,107,791
Debts				
I. Current liabilities		197,809,116,832		304,078,635,803
1. Accounts payable	144,123,626		44,128,307	
2. Accrued payable <Note 12>	854,147,282		4,886,063,543	
3. Accrued expenses <Note 12>	64,282,561,244		55,967,534,913	
4. Deposit	17,821,980		7,066,680	
5. Prepayment	5,325,042,700		5,325,042,700	
6. Short-term borrowings <Note 8, 12>	94,137,240,000		77,884,560,000	
7. Liquidity, long-term debt <Note 9, 12>	33,048,180,000		159,964,239,660	
II. Non-current liabilities		124,534,082,921		-
1. Long-term borrowing <Note 9, 12>	124,534,082,921		-	
Total debts		322,343,199,753		304,078,635,803
Capital				
I. Amount of capital <Notes 1, 10>		148,577,200,000		148,577,200,000
1. Common stock capital	148,577,200,000		148,577,200,000	
II. Capital adjustment		(607,049,560)		(607,049,560)
1. Stock discount issue difference	(607,049,560)		(607,049,560)	
III. Deficit gains		373,607,569,878		363,569,678,452
1. Unprocessed losses <Note 11>	(373,607,569,878)		(363,569,678,452)	
Total capital		(225,637,419,438)		(215,599,528,012)
Total liabilities and capital		96,705,780,315		88,479,107,791

"Notes in the attachment form a part of these financial statements."

### Profit and Loss Statement

16<sup>th</sup> term From April 1 2017 To March 31, 2018

15<sup>th</sup> term From April 1 2016 To March 31, 2017

AvanStrate Korea Inc.

(Unit: Won)

Items	16 <sup>th</sup> term		15 <sup>th</sup> term	
I. Net sales <Note 12>		26,393,197,859		29,184,271,331
1. Trading goods sales	-		8,700,000	
2. Product sales	26,393,197,859		29,175,571,331	
II. Cost of sales <Note 12>		25,798,852,859		25,460,472,291
1. Cost of trading goods sales	-		4,421,400	
A. Opening balance of trading goods at the beginning of the year	-		-	
B. Trading goods purchase price for the current term	-		4,421,400	
C. End of term trading goods balance	-		-	
2. Cost of product sales	25,798,852,859		25,456,050,891	
A. Opening balance at the beginning of the year	-		-	
B. Product manufacturing cost during the current period <Note 18>	25,689,755,199		26,401,391,534	
C. Transfer from other account	109,097,660		-	
D. Transfer to another account	-		(945,340,643)	
E. End of term product balance	-		-	
III. Gross profit		594,345,000		3,723,799,040
IV. Selling and administrative expenses		2,611,662,647		6,652,918,272
1. Salary <Note 18>	690,193,977		1,127,587,212	
2. Retirement allowance <Note 18>	41,397,368		58,770,759	
3. Benefits welfare fee <Note 18>	90,145,489		176,900,113	
4. Travel expenses	65,872,099		270,453,094	
5. Entertainment expenses	2,884,500		890,300	
6. Communication fee	23,987,330		52,915,653	
7. Water utilities cost	77,083,499		126,750,619	
8. Depreciation and amortization <Note 6, 18>	24,602,678		8,966,925	
9. Rental fee <Note 18>	88,093,899		325,400,913	
10. Tax Scheme <Note 18>	361,940		140,748,260	
11. Insurance premium	3,410,582		6,665,101	
12. Transportation fee	507,980,131		861,126,669	
13. Education and training expenses	250,000		638,000	
14. Product compensation expenses	-		835,607,502	
15. Consumables expenses	37,921,560		43,404,405	
16. Payment handling charges	670,444,873		503,883,842	
17. Banking and amortization expenses	38,317,569		5,422,731	
18. Patent royalty charges <Note 16>	-		36,343,848	
19. Supporting labor cost	61,337,145		776,706,401	
20. Employment expenses	2,472,800		35,000	
21. Lease charges	6,849,372		13,837,162	



<b>Items</b>	<b>16<sup>th</sup> term</b>		<b>15<sup>th</sup> term</b>	
22. Temporary staffing fee	53,617,740		306,925,120	
23. Research and research expenses <Note 18>	-		945,340,643	
24. Expense and service fee	116,579,770		-	
25. Repair costs	7,858,326		-	
26. Repair and maintenance expenses	-		27,598,000	
V. Operating loss		2,017,317,647		2,929,119,232
VI. Non-operating income		806,633,886		10,268,896,267
1. Interest income	3,198,113		44,463,635	
2. Foreign exchange gain	692,697,827		1,229,921,134	
3. Foreign currency conversion profit	1,196,330		8,380,463,199	
4. Miscellaneous profit	109,541,616		614,048,299	
VII. Non-Operating expenses		8,813,362,939		6,833,339,746
1. Interest expense	3,379,372,244		3,796,979,034	
2. Foreign exchange loss	808,078,032		1,558,358,141	
3. Foreign currency conversion loss	833,970,987		84,922,211	
4. Miscellaneous loss	3,791,941,676		1,117,833,360	
5. Structure adjustment expenses	-		275,247,000	
VIII. Net income before income tax expense (loss)		(10,024,046,700)		506,437,289
IX. Income tax expense <Note 13>		13,844,726		182,415
X. Net income (loss)		(10,037,891,426)		506,254,874
XI. Gain / loss per share <Note 14>				
Basic earnings per share (loss)		(338)		17

"Notes in the attachment form a part of these financial statements."

### Capital Fluctuation Statement

16<sup>th</sup> term From April 1 2017 To March 31, 2018

15<sup>th</sup> term From April 1 2016 To March 31, 2017

AvanStrate Korea Inc.

(Unit: Won)

Items	Capital amount	Capital adjustment	Earned surplus	Total
April 1 2016 (Reported amount)	148,577,200,000	(607,049,560)	(364,075,933,326)	(216,105,782,886)
Net profit for current term	-	-	506,254,874	506,254,874
March 31 2017	148,577,200,000	(607,049,560)	(363,569,678,452)	(215,599,528,012)
April 1 2017 (Reported amount)	148,577,200,000	(607,049,560)	(363,569,678,452)	(215,599,528,012)
Net loss for current term	-	-	(10,037,891,426)	(10,037,891,426)
March 31 2018	148,577,200,000	(607,049,560)	(373,607,569,878)	(225,637,419,438)

"Notes in the attachment form a part of these financial statements."

### Cash Flow Statement

16<sup>th</sup> term From April 1 2017 To March 31, 2018  
15<sup>th</sup> term From April 1 2016 To March 31, 2017

AvanStrate Korea Inc.

(Unit: Won)

Items	16 <sup>th</sup> term		15 <sup>th</sup> term	
I. Cash flows from operating activities		2,208,569,850		2,210,622,625
1. Net income (loss)	(10,037,891,426)		506,254,874	
2. Addition of expenses without cash outflow	8,340,228,986		5,769,374,719	
Bad debt cost	38,317,569		5,422,731	
Depreciation cost	7,364,031,632		5,628,201,594	
Foreign currency conversion loss	793,243,774		39,335,514	
Other expenses (manufacturing)	144,636,011		96,414,880	
3. Deduction of income etc. without cash inflow	(1,196,330)		(8,380,463,199)	
Foreign currency conversion gains	1,196,330		8,380,463,199	
4. Changes in asset liabilities due to operating activities	3,907,428,620		4,315,456,231	
Increase in accounts receivable	(3,861,042,965)		(577,358,067)	
Decrease (increase) in accounts receivable	(1,981,746,135)		906,149,311	
Decrease in advance payment	491,025,603		435,935,302	
Decrease prepaid expenses	373,326,420		602,288,935	
Decrease in corporate tax assets	35,360		1,225,885	
Reduction of prepaid tariff	-		32,167,350	
Decrease in inventories	311,109,575		1,483,137,075	
Decrease in other deposits	-		95,090,493	
Increase (decrease) in accounts payable	100,309,340		(246,228,953)	
Increase (decrease) in accrued payable	316,534,516		(416,447,790)	
Increase accrued expenses	8,147,121,606		2,875,528,820	
Increase (decrease) in deposits	10,755,300		(22,823,130)	
Decrease in advance payment	-		(853,209,000)	
II. Cash flows from investing activities		(7,944,049,716)		(8,134,622,585)
1. Cash inflow from investing activities	19,033,300		20,000,000	
Decrease in guarantee deposit	19,033,300		20,000,000	
2. Cash outflow from investing activities	(7,963,083,016)		(8,154,622,585)	
Acquisition of equipment	31,500,000		61,794,000	
Increase in construction in progress	7,931,583,016		8,072,828,585	
Increase of guarantee deposit	-		20,000,000	
III. Cash flows from financing activities		13,282,366,828		5,363,204,378
1. Cash inflow from financing activities	140,295,446,488		8,417,360,000	
Borrowing of short-term borrowings	16,126,960,000		8,417,360,000	
Borrowing of long-term borrowings	124,168,486,488		-	
2. Cash outflows from financing activities	(127,013,079,660)		(3,054,155,622)	
Repayment of short-term borrowings	-		2,052,040,000	
Repayment of liquidity long-term debt	127,013,079,660		1,002,115,622	

<b>Items</b>	<b>16<sup>th</sup> term</b>		<b>15<sup>th</sup> term</b>	
IV. Cash increase (decrease) (I + II + III)		7,546,886,962		(560,795,582)
V. Cash at the beginning of period		922,590,751		1,483,386,333
VI. Cash at the end of the period		8,469,477,713		922,590,751

"Notes in the attachment form a part of these financial statements."

**Note:**

16<sup>th</sup> term From April 1 2017 To March 31, 2018  
15<sup>th</sup> term From April 1 2016 To March 31, 2017

AvanStrate Korea Inc.**1. General Matters:**

AvanStrate Korea Inc, (hereinafter referred to as "Our company") was a foreign investment corporation established on November 28, 2002, and it is principally engaged in the development, manufacture, processing and sale of glass substrates for liquid crystal. The capital at the end of the fiscal year is 148,577.2 million Won, and AvanStrate Inc. in Japan holds 100% interest.

**2. Summary of important accounting policies:**

Our company's financial statements have been prepared in accordance with Korean general corporate accounting standards, and the important accounting policies are as follows.

**(1) Modification in accounting policies and disclosures**

Our company has applied for revised items of annual improvement (2016) in general corporate accounting standards to be implemented from the current fiscal year.

**(2) Revenue Recognition**

Our company recognizes revenue as the significant risks and fees associated with the ownership of goods and goods are transferred as a result of transfer. With respect to other income, the earnings acquiring process is completed, the profit amount can be reliably measured, and it has been recognized when the possibility of inflow of economic benefits is very high.

(3) Cash assets

Our company classifies those marketable securities and short-term financial products for which value fluctuations due to fluctuations in interest rates are not significant, those which are easily exchange oriented without large transaction costs, those whose maturity (or redemption date) at the time of acquisition comes within three months, as cash assets.

(4) Financial assets

Our categorizes time deposits, periodic deposits, etc. of financial institutions that are owned for short-term fund management purposes or that will arrive within one year as short-term financial instruments, classifies financial instruments not belonging to current assets as long-term financial products.

(5) Allowance for doubtful accounts

Independent analysis of recoverability of receivables such as trade receivables, loans and receivables as of the end of the reporting period, and an allowance for bad debt provision based on historical past experience of loan loss ratio are established by our company.

(6) Inventory assets

Our company evaluates inventories based on the acquisition cost calculated by the gross average method (however, unconsumed goods are individual law), calculates the quantity and the amount by yearly continuous recording method, and conducts inventory surveys and adjusts their records.

However, when the market value of inventories falls below the acquisition cost, the market value is set as the book value. If the market value of the reduced inventory is higher than the book value, evaluation loss is returned to within the range not exceeding the initial book value.

(7) Marketable securities

Our company classifies securities acquired for the purpose of purchase and sales within a short period of time, in case of actively and frequently traded ones, it is set as short-term trading securities, debt securities whose maturity has been confirmed, in cases where there is a positive intention and ability to hold debt securities whose redemption amount is definite or determinable to maturity, are set as held-to-maturity securities, and securities that are not classified as short-term trading securities or held-to-maturity securities are classified as available-for-sale securities.

The acquisition cost of securities is the market price of consideration provided for the acquisition of securities, including acquisition accompanying expenses, and the acquisition cost of short-term trading securities is the fair value at the time of acquisition.

Held-to-maturity securities amortize the difference between the acquisition cost and the nominal value during the redemption period by the effective interest rate method and add up to the acquisition cost and interest income, and post the amortized cost as the value of the financial condition table.

Short-term trading securities and available-for-sale securities are evaluated at fair value. Marketable securities are deemed to be market prices as fair value; and market prices are set as the closing price as of the end of the reporting period. However, if it is not possible to reliably estimate the fair value of non-marketable equity securities out of available-for-sale securities, it is valued based on the acquisition cost. Unrealized holding gains or losses on short-term trading securities arising from the fair value valuation are treated as profit or loss in the current period, and unrealized holding gains and losses on available-for-sale securities are treated as gains or losses on sales of available-for-sale securities (other accumulated comprehensive income / loss), the cumulative amount of gains or losses on available-for-sale securities is treated as profit or loss in a lump sum at the time of disposition of available-for-sale securities or recognition of impairment loss.

The amount estimated to be recoverable from securities (recoverable value) is smaller than the acquisition cost after depreciation of debt securities or the cost of equity securities, if there is objective evidence that an impairment loss has occurred, unless there is a clear evidence that an impairment loss is unnecessary, we recognize the impairment loss and treat it as profit or loss in the current fiscal year.

## (8) Evaluation of tangible assets and depreciation method

With regard to the tangible assets, our company calculates expenses directly related to purchase cost or production cost of the asset for the tangible asset and the place and state necessary for the management to operate the assets in a manner intended by the management, as the acquisition cost (in kind sponsorship, grants and other assets acquired free of charge are calculated as fair value).

In addition, capital expenditure is taken when the acquisition of tangible assets or expenditure after completion satisfies the condition to be recognized as tangible assets, otherwise it is treated as expenses during the period in which they arise.

Furthermore, the depreciation expense for tangible assets is calculated by the straight-line method using the following service lives.

<b>Classification</b>	<b>Service lives</b>
Building	40 years
Construction	4 years
Machine and equipment	2 to 6 years
Vehicle carrier	4 years
Fixtures	4 years

## (9) Impairment loss on assets

Our company considers that the recoverable value of the asset other than assets valued at fair value is obligatory to the book value due to obsolescence, physical damage, sharp decline in market value, etc. If it does not reach the value, the unachieved amount is reflected in the period profit and loss by the item of asset impairment loss.

If the recoverable amount of the asset that recognized the impairment loss on and after the next term exceeds the book value, our company recognizes reversal of impairment loss based on the (depreciation) amortization balance of the book value before recognizing the impairment loss of the asset.



(10) Retirement allowance

Our company has maintained a defined benefit plan until December 31, 2014, but since January 1, 2015 we have introduced a defined contribution plan.

The obligation to pay contributions to the defined contribution plan is reflected in the current year's profit as retirement allowance unless it is included in the cost of the asset as on the relevant delivery date. In the case of contributions that have not yet been paid, our company records such unachieved amount in liabilities, and in the case of contributions that have been paid in excess, the amount to be paid in future will be reduced or an equivalent amount refunded in cash shall be posted as an asset.

The amount of money recognized by our company related to the defined contribution system in the current and the previous fiscal year is 296,915,000 won and 405,476, 000 won respectively.

(11) Provisional liabilities and contingent liabilities

We are highly likely to have outflows of resources to fulfill the current obligations that exist as a result of past events or transactions among the liabilities with uncertain time or amount of expenditure, and for the performance of such obligation, in case if it is possible to reliably estimate the necessary amount, it is recorded as a provision liability. In addition, when the difference between the nominal value and the present value of the provisional liability is important, it is evaluated based on the present value of the expenditure expected to fulfill the obligation.

Although the past event occurred, although it is a current obligation caused by a potential obligation or a past event that can confirm its existence depending on whether or not an uncertain future event has occurred, if the possibility of resource outflow is not very high or it is not possible to reliably estimate the amount to be obliged to perform, it is noted as a contingent liability.

Even if there is almost no possibility of resource outflow to fulfill the current obligation that exists due to the past event or the result of the transaction, the payment guarantee provided to another person or the similar guarantee, important and pending dispute cases are noted in their contents.

(12) Deferred income tax

Our company recognizes deferred income tax assets and deferred income tax liabilities for temporary differences arising from the difference between the book value of assets and liabilities and their tax value. Deferred income tax assets and deferred income tax liabilities are measured at the income tax burden which will be reduced or additionally borne in the future due to the resolution of future temporary differences. The corporate income tax effect of the temporary difference is reflected in the income tax expense in the period of its occurrence and the income tax effect of temporary differences related to items directly reflected in the equity item is directly reflected in the relevant capital items.

The recoverability of deferred corporate tax assets will be examined by the end of each reporting period and if the occurrence of future taxable income is almost certain and it is expected that the corporate tax reduction effect of deferred corporate tax assets will be realized as assets, with regard to the tax credit carryforwards and tax reductions, deferred income tax assets are recorded within the range of taxable income that is almost certain to be incurred in future periods in which carryforward deduction can be utilized.

Deferred income tax assets and deferred income tax liabilities are classified as current assets (current liabilities) or other non-current assets (other non-current liabilities) by classification of related asset items or liability items on the financial condition statement, deferred income tax assets and liabilities related to the taxation authorities of our company are offset and presented respectively.

(13) Conversion of assets denominated in foreign currencies, liabilities denominated in foreign currencies

Our company converts monetary assets denominated in foreign currencies and liabilities denominated in foreign currencies at the closing price (JP Yen per 100: 1,001.46 won at the end of current fiscal year, 998.52 won at the end of the previous fiscal year, per US\$ per 1: 1,066.50 won at the end of the current fiscal year, 1,116.10 won at the end of the previous year) of foreign currency as of the end of the reporting period and the resulting translation differences are reflected in current earnings of the current period.

Also, the nonmonetary foreign currency items measured at historical cost are measured at exchange rate at the date of trading, non-monetary items denominated at fair value are measured by applying the exchange rate at the date on which fair value was determined doing.

(14) Accounting treatment for lease transactions

When transferring most of the risks and remuneration associated with ownership of leased assets for lease transactions, our company classifies it as a financial lease, otherwise it is classified as an operational lease.

In case of an operating lease, our company records the minimum lease payment, excluding the guaranteed residual value, evenly distributed over the lease term as operating lease fee expenses, for financial leases, we account for the smallest of the present value of discounted minimum lease payments by the intrinsic interest rate and the fair value of leased assets as financial lease assets and financial lease liabilities, respectively, the finance lease assets are depreciated in the same way as other similar assets owned and are allocated to the payment of interest cost and lease liability calculated for each term's minimum lease payment by the effective interest rate method.

(15) Greenhouse gas emission rights and liabilities

Our company shall grant GHG emissions allowance to individual greenhouse gas emitters within the range of the total allowable emission of greenhouse gases set by the "Law concerning allocation and transaction of greenhouse gas emissions rights" without charges. This emission right is paid every year during the planning period, and we have to submit the same number of emission rights corresponding to the actual emissions.

Our company records emissions credits allocated free of charge by the government (hereinafter referred to as "free allocated emissions credits") as zero, and purchased emissions credits are measured at cost and recorded.

And, certain emission credits are derecognized from the financial condition statement when submitting or selling to the government. In the case of selling a free allocated emission right that is determined to remain even if submitted to the government, if the disposal gains / losses are subtracted from the emission cost and the purchased emission rights are to be sold, the disposal profit / loss is set as non-operating profit / loss. In the case where it is not confirmed whether greenhouse gas emissions have been reduced compared with the allocated amount, if we sell the allotted emission right, we recognize the difference between the book value and the net selling price as deferred revenue and sell it, offset the deferred revenue against the emission cost according to systematic standards over the performance year to which the emission credits that have been issued belong to.

Emission liabilities are recognized only when the actual emission exceeds the allocated emission right, and the emission costs are recognized as operating costs. Emission liabilities are measured by adding ② to ① mentioned below.

- ① Book value of the emission credits held for the relevant performance period to be submitted to the government
- ② The best estimate as of the reporting period end date for the expenditure required to fulfill the obligation concerning the emissions exceeding the quantity of the emission right in ①

In the case of borrowing a part of the gratuitous allotment emission right for the next performance year in order to fulfill the obligation to submit emission credits for the relevant performance year, it falls under the portion to be borrowed when removing the emission liability and we recognize the amount of the emission obligation as deferred revenue and this deferred revenue is offset against the emission cost of the performance year in which we purchase and use the emission credits that were short due to borrowing.

(16) Basic earnings per share

The basic net profit / loss per share of our company is calculated by calculating net income / loss on one common share, which is calculated by dividing the net income / loss of common stock by the weighted average number of common shares of common stock.

**3. Important accounting policy rationale and important assumptions and information on measurement uncertainty regarding the future**

At the time of preparation of the financial statements, management of our company must make judgments, estimates and assumptions that could affect the carrying amount for income, expenses, assets and liabilities and the notes on contingent liabilities. However, the uncertainty of such estimates and assumptions could result in significant adjustments to the carrying amount of the assets and liabilities affected in the future.

**4. Deposits with restricted usage**

Breakdown of deposits that our company has restricted usage as of the reporting period end date is as follows.

(Unit: Won in 1000s)

Accounted items	Supplier	Current term	Previous term	Restricted content
Long-term financial products	Woori bank (Ltd)	2,000	2,000	Current opening guarantee deposit

**5. Marketable securities**

As of the end of the reporting period, all equity securities held by our company are all non-marketable equity securities, and the breakdown is as follows.

<Current term>

(Unit: Won in 1000s)

Name of company	No. of shares	Type of shares	Fair value	Book value	Unrealized holding gains / losses	Impairment loss	
						Previous to current term	Current term
Ever precision coatings (Ltd)	81,026	Redemption preferred stock	-	-	-	40,513	-

<Previous term>

(Unit: Won in 1000s)

Name of company	No. of shares	Type of shares	Fair value	Book value	Unrealized holding gains / losses	Impairment loss	
						Previous to current term	Current term
Ever precision coatings (Ltd)	81,026	Redemption preferred stock	-	-	-	40,513	-

**(6) Tangible assets**

The breakdown of the change in book value of our tangible assets is as follows.

<Current term>

(Unit: Won in 1000s)

Accounted items	Beginning of term	Acquisition	Disposal	Depreciation cost	Transfer	End of term
Machines and equipment	65,622,864	-	-	(6,583,304)	15,354,709	74,394,269
Fixtures	2,121,325	31,500	-	(780,728)	36,600	1,408,697
Construction in progress	12,132,486	3,581,519	-	-	(15,535,945)	178,060
Total	79,876,675	3,613,019	-	(7,364,032)	(144,636)	75,981,026

Among other reduction amount of construction in progress 144,636,000 won not accounted in the tangible assets, 29,263,000 won has been transferred to repair costs (manufacturing costs), 91,318,000 won has been transferred to consumable expenses (manufacturing costs) and 24,055,000 won to other expenses (Manufacturing cost).

<Previous term>

(Unit: Won in 1000s)

Accounted items	Beginning of term	Acquisition	Disposal	Depreciation cost	Transfer	End of term
Machines and equipment	56,372,072	-	-	-	(4,901,821)	14,152,614
Fixtures	1,921,954	61,794	-	(726,380)	863,957	2,121,325
Construction in progress	15,741,938	11,503,534	-	-	(15,112,986)	12,132,486
Total	74,035,964	11,565,328	-	(5,628,201)	(96,415)	79,876,675

Among other reduction amount of construction in progress 96,415,000 won not accounted in the tangible assets, 67,259,000 won has been transferred to repair costs (manufacturing costs), 6,217,000 won has been transferred to consumable expenses (manufacturing costs) and 22,939,000 won to other expenses (Manufacturing cost).

### 7. Insurance subscription assets

As of the end of the current fiscal year, insurance coverage of our inventory and tangible assets is as follows.

<Current term>

(Unit: Won in 1000s)

Insurance type	Insurance company	Insured asset	Insured amount
General insurance	Hyundai Marine and Fire Insurance Co., Ltd.	Tangible assets	293,102,976
		Inventory assets	4,000,000
Total			297,102,976

The above-mentioned general insurance includes inland transportation insurance (200 million won per case, 200 million won per year limit) and third-party accident insurance. In addition to the above, our company has subscribed to cash theft insurance.

### 8. Short-term borrowings

As of the reporting period end date, the breakdown of short-term borrowings is as follows.

<Current term>

(Foreign currency denominated amount: yen in 1000s, won denominated amount: won in 1000s)

Type	Borrowing party	Interest rate (%)	Foreign currency	Won currency conversion amount
Working capital	AvanStrate Inc.	TIBOR + 1.8	9,400,000	94,137,240

<Previous term>

(Foreign currency denominated amount: yen in 1000s, won denominated amount: won in 1000s)

Type	Borrowing party	Interest rate (%)	Foreign currency	Won currency conversion amount
Working capital	AvanStrate Inc.	TIBOR + 1.8	7,800,000	77,884,560

### 9. Long-term borrowings

(1) As of the reporting period end date, the breakdown of long-term borrowings is as follows.

<Current term>

(Foreign currency denominated amount: yen in 1000s, won denominated amount: won in 1000s)

Type	Borrowing party	Interest rate (%)	Foreign currency	Won currency conversion amount	Repayment method
Working capital	AvanStrate Inc.	TIBOR + 3.0	2,800,000	28,040,880	Maturity repayment
			500,000	5,007,300	
	Cairn India Holdings Limited	TIBOR + 0.5	12,435,253	124,534,083	Repayment of principal payment
Total			15,735,253	157,582,263	
Substitution: liquidity transfer			(3,300,000)	(33,048,180)	
Long-term debt			12,435,253	124,534,083	

<Previous term>

(Foreign currency denominated amount: yen in 1000s, won denominated amount: won in 1000s)

Type	Borrowing party	Interest rate (%)	Foreign currency	Won currency conversion amount	Repayment method
Working capital	AvanStrate Inc.	TIBOR + 1.8	2,800,000	27,958,560	Maturity repayment
			500,000	4,992,600	
	Mitsubishi UFJ, (Ltd.)	TIBOR + 0.5	12,720,134	127,013,080	Repayment of principal payment
Total			16,020,134	159,964,240	
Substitution: liquidity transfer			(16,020,134)	(159,964,240)	
Long-term debt			-	-	

(2) As of the end of the current fiscal year, the repayment amounts of long-term borrowings by fiscal year are as follows.

(Foreign currency denominated amount: yen in 1000s, won denominated amount: won in 1000s)

Term	Foreign currency amount	Won converted amount
From April 1 2018 to March 31 2019	3,300,000	33,048,180
From April 1 2019 to March 31 2023	4,476,692	44,832,280
Since April 1 2023	7,958,561	79,701,803
Total	15,735,253	157,582,263



**(10) Amount of Capital**

As of the reporting period end date, the total number of shares issued by our company, the number of shares issued and the nominal value per share are 30,000,000 shares, 29,715,440 shares, 5,000 won, respectively, there is no capital fluctuation in the current term and the previous term.

**(11) Calculation of carry forwarded loss**

Breakdown of losses for the current term and the previous term is as follows.

**Statement of Deficit Treatment**

16<sup>th</sup> term From April 1 2017 To March 31, 2018

15<sup>th</sup> term From April 1 2016 To March 31, 2017

(Unit: Won)

Items	Current term		Previous term	
	Process scheduled date: June 29, 2018		Processing commitment date: June 23, 2017	
I. Amount of unprocessed loss		373,607,569,878		363,569,678,452
1. Previous term unprocessed loss carryforwards	363,569,678,452		364,075,933,326	
2. Net loss of current term (profit)	10,037,891,426		(506,254,874)	
II. Amount of treated loss		-		-
III. Next term unprocessed loss carryforward		373,607,569,878		363,569,678,452

**(12) Special affiliated parties**

(1) As of the end of the fiscal year under review, the controlling companies with special relationship with our company are as follows.

<b>Company name</b>	<b>Controlling company</b>	<b>Relationship with our company</b>
Volcan Investments Limited	-	Top controlling company
Cairn India Holdings Limited	Volcan Investments Limited	Senior controlling company
AvanStrate Inc.	Cairn India Holdings Limited	Controlling company

(2) The breakdown of transactions with special affiliated parties during the period is as follows.

(Unit: Won in 1000s)

<b>Special parties</b>	<b>Transaction breakdown</b>	<b>Current term</b>	<b>Previous term</b>
<b>Senior controlling company:</b>			
Cairn India Holdings Limited	Purchase transaction etc.	189,544	-
	Borrowing funds	124,168,486	-
<b>Controlling company:</b>			
AvanStrate Inc.	Purchase transaction etc.	2,877,812	4,019,337
	Borrowing funds	16,126,960	8,417,360
	Repayment of loans	-	2,052,040
<b>Affiliated companies:</b>			
AvanStrate Taiwan Inc.	Sales transaction etc.	26,453,629	18,004,820
	Purchase transaction etc.	189,178	3,716,375

(3) As of the end of the reporting period, the receivables and liabilities to special affiliated parties are as follows.

(Unit: Won in 1000s)

<b>Special affiliated parties</b>	<b>Accounted item</b>	<b>Current term</b>	<b>Previous term</b>
<b>Senior controlling company:</b>			
Cairn India Holdings Limited	Accrued expenses	191,667	-
	Long term debts	124,534,083	-
<b>Controlling company:</b>			
AvanStrate Inc	Accounts receivable	1,001	-
	Accounts payable	23,528	-
	Accrued expenses	56,845,135	54,256,346
	Short-term debts	94,137,240	77,884,560
	Liquidity long-term debts	33,048,180	32,951,160
<b>Affiliated companies:</b>			
AvanStrate Taiwan Inc.	Trade receivables	7,515,828	3,684,071
	Accounts receivable	175	-
	Accounts payable	1,019	4,014,235
	Accrued expenses	27,208	-

4) As of the end of the fiscal year under review, our company provided payment guarantees related to AvanStrate Inc.'s borrowings of 22,300,000,000 yen to Cairn India Holdings Limited.

### 13. Corporate tax expense and deferred income tax assets (liabilities)

(1) Calculation of corporate income tax expense reflected in profit and loss for the current and previous periods is as follows.

(Unit: Won in 1000s)

Classification	Current term	Previous term
Current term corporate tax (including corporate tax additional payment, refund amount)	13,845	182
Deferred income tax change due to temporary differences	-	-
Income tax expense	13,845	182

(2) The relationship between our company's income tax expense before net income tax expense and income tax expense for the current and the previous fiscal years is as follows.

(Unit: Won in 1000s)

Classification	Current term	Previous term
Net income before corporate tax expense (loss)	(10,024,047)	506,437
Corporate tax based on applicable tax rate (current year: 22%, previous year: 22%)	(2,205,290)	111,416
Adjustment items		
- Non-deductible expenses	500	904
- Unrecognized effect of deferred corporate tax assets of difference that occurred	2,204,790	(112,280)
- Tax adjustment discrepancies	-	(40)
- Foreign payment tax amount	13,845	-
- Others (tax rate difference etc)	-	182
Corporate tax expense	13,845	182
Effective tax rate (Corporate tax expense ÷ Net profit loss before corporate tax expense)	(*)	0.03%

(\*) Effective tax rate has not been calculated as net loss before corporate tax expense was incurred during the current fiscal year.

(3) The breakdown of the temporary difference and deferred corporate tax assets (liabilities) of our company and the changes in deferred income tax assets (liabilities) as a percentage before offsetting are as follows.

<Current term>

(Unit: Won in 1000s)

Classification	Term beginning	Adjustment	Increase	Decrease	Term ending
Future subtractive temporary difference:					
Depreciation cost	79,272,455	-	3,024,951	(24,870,845)	57,426,561
Tax dues	1,757	-		-	1,757
Bonus money	345,633	-		-	-
Accrued expenses	58,104	-	3,370,241	(58,104)	3,370,241
Long-term borrowings (foreign currency)	-	1,554,340	-	-	1,554,340
Bad debts	40,513	-	-	-	40,513
Reserve for inventory valuation	209,039	-	109,098	-	318,137
Tangible asset impairment loss	38,815,153	-	-	-	38,815,153
Capital expenditure	602,839	-	-	(423,299)	179,540
Royalty expenses	26,750,299	-	-	-	
Amount of loss on tax	184,172,402	(1,554,340)	29,214,646	-	211,832,249
Total	330,268,194	-	35,718,936	(25,697,881)	340,289,249
Future addition temporary difference:					
Tangible assets disposal profit	(720)	-	-	720	-
Accrued expenses (foreign currency)	(504,162)	-	-	-	(504,162)
Total	(504,882)	-	-	720	(504,162)
Deductible total	329,763,312	-	35,718,936	(25,698,601)	339,785,087
Total deferred corporate tax assets	72,547,929				74,752,719
Deferred income tax assets not yet recorded	72,547,929				74,752,719
Net deferred corporate tax assets	-				-

&lt;Previous term&gt;

(Unit: Won in 1000s)

Classification	Term beginning	Adjustment	Increase	Decrease	Term ending
Future subtractive temporary difference :					
Depreciation cost	106,354,886	-	2,178,606	(29,261,037)	79,272,455
Tax dues	1,757	-	-	-	1,757
Bonus money	-	-	345,633	-	345,633
Accrued expenses	110,768	-	58,104	(110,768)	58,104
Long-term borrowings (foreign currency)	1,554,340	-	-	(1,554,340)	-
Bad debts	40,513	-	-	-	40,513
Reserve for inventory valuation	5,863,257	-	209,039	(5,863,257)	209,039
Tangible asset impairment loss	38,815,153	-	-	-	38,815,153
Capital expenditure	-	1,026,138	-	(423,299)	602,839
Tangible asset disposal loss	-	9,308,450	-	(9,308,450)	-
Royalty expenses	-	26,750,299	-	-	26,750,200
Amount of loss on tax	178,038,669	(37,084,703)	43,218,436	-	184,172,402
Total	330,779,343	184	46,009,818	(46,521,151)	330,268,194
Future addition temporary difference:					
Tangible assets disposal profit	(1,506)	-	-	786	(720)
Accrued expenses (foreign currency)	(504,162)	-	-	-	(504,162)
Total	(505,668)	-	-	786	(504,882)
Deductible total	330,273,675	184	46,009,818	(46,520,365)	329,763,312
Total deferred corporate tax assets	72,660,209				72,547,929
Deferred income tax assets not yet recorded	72,660,209				72,547,929
Net deferred corporate tax assets	-				-

(4) Breakdown of temporary differences not recorded as deferred income tax assets as of the reporting period end date are as follows.

(Unit: Won in 1000s)

<b>Classification</b>	<b>Current term</b>	<b>Previous term</b>
Temporary difference (* 1)	127,952,379	147,145,249
Amount of loss by tax (* 2)	211,832,708	184,172,402
Total	339,785,087	331,317,651

(\* 1) We do not record the corporate tax reduction effect resulting from this, as deferred corporate tax assets because the total of the expected taxable income and future temporary difference to be incurred after the next term is smaller than the temporary difference in the future.

(\* 2) As of the end of the current fiscal year, the maturity dates of tax losses that are not recorded as deferred income tax assets according to accounting year are as follows.

(Unit: Won in 1000s)

<b>Accounting year</b>	<b>Amount</b>
March 31, 2020	1,731,241
March 31, 2021	53,898,588
March 31, 2022	7,151,771
March 31, 2026	78,172,366
March 31, 2027	43,218,436
March 31, 2028	27,660,306
Total	211,832,708

**14. Earnings per share**

The breakdown of calculation of our company's basic net income (loss) per share is as follows.

(Unit: Won, Share)

<b>Classification</b>	<b>Current term</b>	<b>Previous term</b>
Common share net income for current term (loss)	(10,037,891,426)	506,254,874
Weighted average number of shares of common stock	29,715,440	29,715,440
Basic earnings per share (loss)	(338)	17

**15. Cash flow statement**

Our company has prepared the cash flow from operating activities by the indirect method upon the cash flow statement, and the important transaction details without cash inflow and outflow are as follows.

(Unit: Won in 1000s)

<b>Details</b>	<b>Current term</b>	<b>Previous term</b>
Machine device transfer of construction in progress	15,354,709	14,152,614
Transfer of fixtures in construction under progress	36,600	863,957
Acquisition cost of tangible assets not paid	105,277	4,455,341
Transfer of liquidity of long-term prepaid expenses	-	342,122
Transfer of liquidity of long-term borrowings	-	131,513,232



**16. Patent rights and technical use agreement**

Our company has entered into patent rights and technology use contracts with AvanStrate Inc for the first time on January 6, 2003., and concluded the amendment agreement on April 1, 2014. According to the patent right and technical use agreement, 0.1% of product sales and 2% of product sales are to be paid as patent royalty fee for products and product sales that uses NA32SG ingredients, there is no patent royalty fee generated in the current fiscal year, and the royalty fee generated in the previous term is 36,344000 won.

**17. Guarantee**

As of the end of the fiscal year under review, the breakdown of the guarantee that we are receiving from others is as follows.

(Unit: Won in 1000s)

Guarantee provider	Guarantee location	Guaranteed Amount	Guarantee breakdown
Seoul Guarantee Insurance Co., Ltd.	Gyeonggi-do, Pyeongtaek	220,000	Building construction safety management deposit

**18. Matters necessary for value-added calculation**

Matters necessary for calculation of added value included in our manufacturing cost, selling expenses and administrative expenses etc. are as follows.

<Current term>

(Unit: Won in 1000s)

Account item	Manufacturing cost	Selling and administrative expenses	R & D expenses	Total
Salary	3,916,825	690, 194	-	4,607,019
Retirement salary	255, 518	41, 397	-	296, 915
Welfare expense	454, 385	90, 145	-	544, 530
Rent	8,037	88,094	-	96, 131
Depreciation cost	7, 339, 429	24, 603	-	7, 364, 032
Taxes	113, 638	362	-	114,000
Total	12,087,832	934, 795	-	13,022,627

<Previous term>

(Unit: Won in 1000s)

Account item	Manufacturing cost	Selling and administrative expenses	R & D expenses	Total
Salary	5,109,770	1,127,587	121,766	6,359,123
Retirement salary	339,553	58,771	7,152	405,476
Welfare expense	192,305	176,900	3,457	372,662
Rent	14,783	325,401	-	340,184
Depreciation cost	5,619,234	8,967	-	5,628,201
Taxes	23,138	140,748	-	163,886
Total	11,298,783	1,838,374	132,375	13,269,532

**19. Greenhouse gas emission rights and emission liabilities**

(1) As of the end of the fiscal year under review, the number of allocated emission rights by plan period and performance year is as follows.

(Unit: KAU)

<b>Classification</b>	<b>For 2015</b>	<b>For 2016</b>	<b>For 2017</b>	<b>Primary plan period total</b>
Free allocation emission rights	25,197	40,379	65,779	131,355

(2) The breakdown of quantity of greenhouse gas emission rights for the fiscal year under review is as follows.

(Unit: KAU)

<b>Classification</b>	<b>For 2015</b>	<b>For 2016</b>	<b>For 2017</b>	<b>Total</b>
Beginning of the year	25,197	75,364	65,779	166,340
Cancelled quota	-	(7,169)	-	(7,169)
Additional quota	-	-	-	-
Final quota	25,197	68,195	65,779	159,171
Government submission	-	(27,816)	-	(27,816)
Carry forward	(25,197)	(40,379)	65,576	-
End of the year	-	-	131,355	131,355

(3) The estimated value of greenhouse gas emissions for the current term is 20,305 tCO<sub>2</sub>-eq (previous term: 27,816 tCO<sub>2</sub>-eq), and the certified greenhouse gas emissions for the previous term are 27,816 tCO<sub>2</sub>-eq.

**20. Assumptions of on-going business**

(1) We prepared the financial statements of our company on the assumption that our company will survive as a going concern. Accordingly, we accounted for assets and liabilities under the assumption that they can be collected or settled at book value through normal sales activities. However, the following situation poses serious doubt on the premise of such a going concern.

## 1) Current financial indicator

(Unit: Won in 1000s)

<b>Classification</b>	<b>Amount</b>
Operating loss	2,017,318
Interest cost	3,379,372
Net loss for current term	10,037,891
Negative net working capital as of the end of current fiscal year	177,433,421
Total liabilities exceeding total assets as of the end of current fiscal year	225,637,419

## 2) Sales structure

<b>Suppliers</b>	<b>Current term</b>	<b>Previous term</b>
Major sales	0.00%	32.39%
Affiliated companies	100.00%	61.51%
Other	0.00%	6.10%

Our company's sales in the current fiscal year under review consist only of net sales to affiliated companies.

## 3) Maturity of borrowings

As of the end of the fiscal year under review, the outstanding borrowings amounted to 251,700,000,000 won, among which 127,200,000,000 won borrowed against AvanStrate Inc., the controlling company, will mature into the next term.

(2) Our company's countermeasures against the survival problem as a continuing company are as follows.

1) Management strategies for production and sales, etc. to achieve stable operating profitability are as follows.

① Sales strategy: Our company plans to achieve sales growth through discovering new customers based on stable supply of products to affiliated companies.

② Management improvement strategies like cost reduction: From the previous fiscal year, it is expected that costs and expenses will be saved as a result of ongoing implementation of management structure improvement activities.

2) Our company considers that whether or not to extend the maturity of the loan is an important factor in evaluating the survival ability of the company as a going concern. Regarding this, our company plans to improve the cash flow balance through a debt maturity extension discussion with the controlling company AvanStrate Inc.

(3) Under circumstances where doubts are raised on the adequacy of the assumptions of going concern, which was the premise of our company's preparation of financial statements, due to the financing plan necessary for debt settlement (extension of maturity) and additional funds demand, and the success of financial and management improvement plan to achieve stable ongoing business profit, there is an important uncertainty whose validity depends on it. If these plans face issues and if it is difficult for us to survive as a going concern, we cannot collect or settle our assets and liabilities at book value through normal business activity process. Amounts and classification indications of assets and liabilities that may arise if the going concern is not reasonable due to the final result of these uncertainties, and corrections related to related profit and loss items are not reflected in the financial statement.

## **21. Approval agencies and date of final approval of financial statements**

Our company's financial statements will be final approved at the annual general shareholders' meeting to be held on June 29, 2018.