

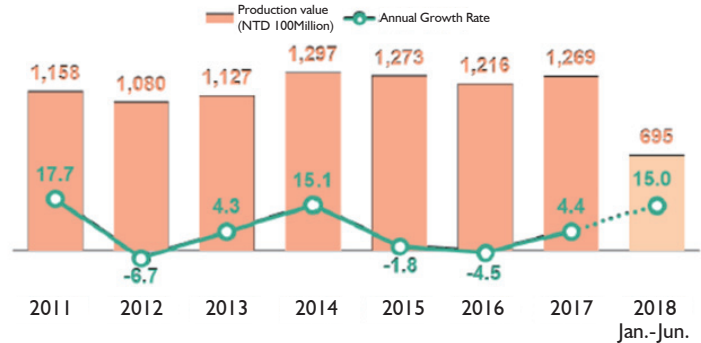
## Industry Update

### Targeting EU & USA, Taiwan Fastener Production and Export Likely to Set a New Record This Year

The Ministry of Economic Affairs (Taiwan) released the statistics on September 17, indicating that Taiwan fastener production and export is likely to set a new record this year. The statistics show that the U.S. is the main export destination with USD 1.15 billion worth of fasteners exported from Taiwan to the U.S. in the first 8 months of 2018. Taiwan is the top source of fastener import for the U.S. and EU. The production value in 2017, benefiting from market recovery, rose to NTD 126.9 billion. That value in the first half of 2018 was NTD 69.5 billion at an annual growth rate of 15%. The full-year value is estimated at NTD 14 billion.

Taiwan fasteners are in a high-value transformation trajectory targeting applications in the aerospace, automotive and medical fields. The average export price has risen and the export value in the first 8 months of 2018 land at USD 3.08 billion at an annual growth of 16.6%. The estimated full-year export value could reach USD 4.5 billion. The top destination for Taiwan fastener export is the U.S. taking up 37.3% of Taiwan's total fastener export, followed by Germany at 9.9%, the Netherlands and Japan both at 5%, and 3% respectively for UK, Canada and China.

If we look at the market shares of fasteners imported by the U.S., in the first half of 2018 Taiwan topped the U.S. fastener import market by a share of 32%, followed by China at 25.8% and Japan at 11.5%. As for the EU fastener import market, Taiwan topped by a share of 25.4%, followed by China at 19.4% and the U.S. at 13.2%.



### Taiwan Fastener Export to Germany Down for 2 Consecutive Months After Setting a Historical High Record

Following a historical high record of monthly export volume, Taiwan fastener export to Germany has decreased for 2 months in a row, down to below 13,000 tons this July, but in contrast the price has risen during the 2-month period. In the first 7 months of 2018, Taiwan fastener export to Germany broke 90,000 tons, up 6% over the previous period, and the export price to Germany hiked 17% which is the largest growth margin compared to the price to other countries.

Taiwan fastener export to Germany reached 15,557 tons in May, setting a new monthly record in history, but dropping to 13,321 tons in June and again to 12,748 tons in July, up 3.01% over the previous period and down 4.29% from June, marking a downward trend in export volume for 2 consecutive months.

In the first 7 months of 2018, Taiwan exported a total of 90,613 tons to Germany, up 6.09% over the previous period, and the average export price was USD 2.929/kg, a significant increase of 17.1%. For Taiwan fasteners, Germany is the top export destination in Europe and the second largest destination (following the U.S.) in the world. Judging from the record of July, the growth margin of Taiwan's export volume to Germany was bigger than its margin (5.65%) of total export volume to the world.



### Australian Currency Depreciating to a 2-Year Low,

### Taiwan Fastener Sales to the Australian Market on a Watch List

Following both the price and volume rise of Taiwan fastener export to Australia last year, the margin of the rise has grown larger this year, totaling over 13,000 tons in the first 7 months of 2018, marking a two-digit growth over the previous period. The rise was seen in the export price as well. Judging from the condition, the full-year sales to Australia is likely to grow.

Taiwan fastener export to Australia has been performing well since the start of this year. Taiwan's export volume to Australia in July reached 2,042 tons (up 7.06%) and the average price was USD 2.673/kg (up 4.31%). The first 7 months of 2018 showed that Taiwan exported a total of 13,029 tons of fasteners to Australia, a significant growth of 15.58%, and the average price was USD 3.459/kg (up 3.05%).

Recently the Australian currency has depreciated to a two-year low. According to the latest statistics of the National Australia Bank, the Australian market grew in August, but the Business Sentiment Index dropped. Therefore it should be necessary to see what unfolds for the future of Taiwan fastener export to Australia.

## Taiwan Fastener Export to Vietnam Dropped Drastically and is in for a Definite Large Scale Regression



After a 3-month consecutive low of less than 2,000 tons, Taiwan fastener export to Vietnam in July shrank to less than 1,500 tons, but the export price soared 20% over the previous period. In the first 7 months the export volume from Taiwan to Vietnam was only 10,000 tons, but the price jumped significantly. The margins of volume drop and price rise were both 13%.

Formosa Ha Tinh Steel Corporation began operation supplying wires in Vietnam and attracting companies from Taiwan and China to make investments there. The fierce competition has shrunk Taiwan fastener export to Vietnam. Judging from the current market condition, the full-year fastener export from Taiwan to Vietnam is destined for a trajectory of drastic volume drop and price rise.

## China Fastener Companies Heading Southward, Impacting Taiwan's Order Intake



Recently around 600 fastener companies from China headed to Vietnam to make investments for establishing plants, resulting in a hike of land price in

Vietnam. If China's fastener companies head to Southeast Asia in hordes, they will be able to bypass the tariff from the trade war and probably in turn pose a threat to Taiwanese fastener companies. Even if China's fastener companies head southwards, they still require manufacturing materials from China before they can bypass the tariff. China used to enjoy a high market share in the U.S. for the low price of fasteners, but it caught the fastener industry by surprise when they saw the fastener category appearing in the third tariff list of the U.S. 301 trade sanction. Starting next year, the tariff on fasteners exported from China to the U.S. will be raised to 25%, and many fastener companies from China are rushed for a change of plans heading to Southeast Asian countries.

China's shift to placing fastener manufacturing plants to Southeast Asia is no surprise for Taiwan fastener industry. The China/U.S. trade war is just the trigger for that. The shortage of labor and soaring wage in recent years of China along with stricter environmental regulations have left no room of existence for low-profit fastener companies of the middle or lower level. If China's fastener companies do succeed in their shift towards the south, the target of impact will be those average fastener companies with smaller added values. There have been quite a few Taiwanese fastener companies completing transformation to manufacturing automotive, aerospace and bio-technological fasteners and therefore receiving little impact from the China counterparts.

## Taiwan Fastener Industry Calls for a Cease of Price Raise for Wire Rods

As the trade war between China and the U.S. continues to scale up, Taiwan is caught in the middle with its overseas sales of fasteners. Taiwan Industrial Fasteners Institute states the American buyers recently have moved up their dates for purchase



and that affected the order intake of Taiwan fastener industry in the second half of this year. Besides, fastener companies from China are actively deploying in Southeast Asia, posing a potential threat to Taiwan fastener industry. Therefore, the Institute urges China Steel Corp to cease raising wire rod price for the first quarter of 2019. China Steel Corp said, " We respect the statement of the Institute. "

Mr. Tu-Chin Tsai, Chairman of the Institute, said the trade war led the American buyers to move up the dates for purchase in order to avoid the 25% import tariff. This has caused quite a number of warehouses to be filled up, affecting the order intake and overseas sales of Taiwan fasteners. Meanwhile, recently some 600 fastener companies from China visited Vietnam, preparing to acquire land and invest. This caused the local land price to surge from USD60 to USD120 per square meter.

Vice Sales President of China Steel Corp analyzed that Southeast Asian fastener companies are taking low price orders on and off from China this year. Buyers may have gradually reduced purchase from China and turned to deployment in Southeast Asia. The aftermath is worth observing. Starting from next year, the tariff rate on fasteners exported from China to the U.S. will be raised to 25%, and therefore we could expect to see more orders shifted from China to Taiwan in next January or February.

## China Steel Corp's Domestic Steel Price for the Fourth Quarter of 2018

Wire price up by NTD500, hot-rolled steel up by NTD 293, and cold-rolled steel remains unchanged.

The price adjustment for the fourth quarter is as follows	
Categories	Average adjusted price (NTD per ton)
Steel Plate	+575
Wire Rod	+500
Hot-rolled steel	+293
Cold-rolled steel	+0
Galvanized Steel Roll	+0
Electromagnetic Steel Roll	-643
Hop-dip Galvanized Steel Roll	+103

## China's Fastener Export Rebate Rate Raised Starting November 1

China Ministry of Finance announced a product list of raised export rebate rate on October 25 that involved 1,172 items. The new rate has been in force since November 1. This is the second time since September that the Ministry made a large-scale adjustment of export rebate rate.

The original 9% rebate rate for fasteners was raised to 10% starting November 1. The list of affected fasteners is as follows:

Product Codes	Products	Adjusted Export Rebate Rate (%)
73181100	Square head screws	10
73181200	Other woodscrews	10
73181300	Screw hooks and screw rings	10
73181400	Self-tapping screws	10
73181510	Screws and bolts with tensile strength above 800MPa, with or without nuts or washers	10
73181590	Other screws and bolts	10
73181600	Nuts	10
73181900	Threaded products not otherwise specified	10
73182100	Spring washers and other anti-loosening washers	10
73182200	Other washers	10
73182300	Rivets	10
73182400	Pins and cotter pins	10
73182900	Other non-threaded fasteners	10
73194010	Safety pins	10
73194090	Other pins	10
73199000	Steel pins and similar products not otherwise specified	10
73201010	Locomotive leaf springs and springs	10
73201020	Automotive leaf springs and springs	10
73201090	Other leaf springs and springs	10
73202010	Locomotive helical springs	10
73202090	Other helical springs	10
73209010	Other locomotive springs	10
73209090	Other springs	10
74199920	Copper springs	10
73170000	Nails, tacks, drawing pins and similar products	10

## Fastener Production & Sales in Wenzhou City (China) Rise Against the Odds



The fastener industry in Longwan District of Wenzhou City remains in a growth trend this year. Currently the city has reached a total production value of over RMB 7.5 billion, up 5%. The total export volume of the city has reached 5,954 tons, up 28.71%.

Integrating with the Internet, the fastener industry in Longwan District kicked off a boom of independent research and development. "For instance, the threading machines

produced by ZhongTe company in Wenzhou City contains 5 patents," said Secretary Chief of Wenzhou Fastener Association. The association actively helps companies improve their core technology, brand awareness and reputation.

The fastener industry in Longwan District is a combination of two approaches, one that targets technical reform, and the other targeting collaboration between the industry and universities, taking the industry to the next level. ZhongTe collaborated with universities and refined the old structure of threading machines through innovative approaches, creating a new threading machine with smaller size, larger threading force and higher precision.

## A Taiwan-funded Fastener Plant in Zhejiang Province of China Penalized for Illegal Discharge of Waste

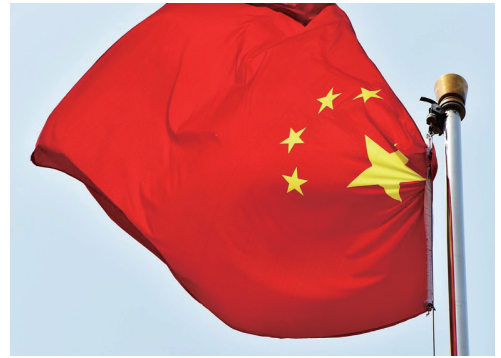


A People's Court in China made a ruling of first instance on September 28 on a case where a Taiwan-funded fastener company was suspected of cross-province discharge of hazardous waste polluting Yangtze River. The Court ruled that the company would be fined RMB 10 million based on the environmental pollution the company incurred. The owner of the company and two critically involved defendants were penalized with 5 years and 9 months up to 6 years of imprisonment and a fine of RMB 200 thousand. The other defendants were sentenced to imprisonment or criminal detention along with fines. Coupling with the civil compensation, the total fine reached RMB 6.65 million, and the company was required to issue a public apology on media.

In recent years China has gradually gained awareness on environmental protection and has been toughening relevant regulations. Many companies were forced to shutdown for not complying with the regulations. It is strongly suggested that companies planning to set up bases in China should comply with local regulations in case of tremendous losses and penalties that serve good to no one.

## Weight Reduction Could be the Focus of China Fastener Technology

In the 21st century, China's vibrant construction demand will significantly drive the growth of fastener industry. Through decades of development, China fastener industry has apparently leveled up its technology which is implemented in a few actual applications. First, in recent years China fastener companies have increased the development and application of raw materials and have made progress in heat treating raw materials, leading to the successful development of 10.9 grade high strength fasteners applied in automobiles, diesel engines and compressors. Second, China's development in material selection, hot heading, heat treatment and surface treatment for M30-M65 10.9 grade high strength fasteners has panned out in response to the demand for localized wind power facilities. Additionally, China has reached a certain result in the development of heat-resistant materials, hot heading and heat treatment.



While making breakthroughs in manufacturing technique, China is advancing in fastener development with rapidly increasing fastener patents. During 2008 and 2017, the number of patent application for China fasteners kept increasing. Particularly 2012 marked the largest growth margin of 40.5% for the number of fastener patent application. In 2017 the number was 13,171.

With the development of the automobile, machinery, construction and light manufacturing industries, the global market has increasingly high requirements for fasteners, such as higher performance and lightweighting for cars, taller buildings and longer bridges, and requires fasteners to have better stress performance and reduce weight. The strength of bolts used on American cars are on an average grade of 9.2 and above, and some fasteners used on cars or machines are even required to have a tensile strength above 1400MPa.

The fastener technology gap between China and global advanced countries is more obvious in the supply of raw materials, and therefore, the future technological development of China will center on the development of raw materials. For example, in China the materials for fasteners are basically hot-rolled, so the future development of steels for fastener manufacture in China will center on adopting in-production softening treatment and developing high purity steel, untampered steel, micro-alloyed steel, ultra-fine grained steel, dual phase steel, and low carbon martensitic steel. Additionally, for now China's high-end fasteners can only partially satisfy the market, some specially required fasteners have to be imported. For example, 90% of electronic screws in China are imported. Therefore, the focus of R&D will be developing high-end fasteners.



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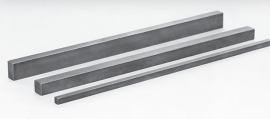
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Machine Key



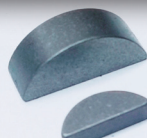
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## South Africa Has Imposed 42.09% Temporary Safeguard Tariff on Imported Hexagonal Threaded Screws Since August 3, 2018 (Taiwan Not Included)



The National Taxation Bureau of South Africa announced to impose a 42.09% temporary tariff on imported hexagonal threaded screws (HS code 7318.15.39) starting August 3 for a period of 200 days until February 18, 2019. Taiwan was listed as qualified for minor exemption, so the same products exported from Taiwan still applies the original 30% tax and is not subject to the temporary safeguard measure.

## Companies Development



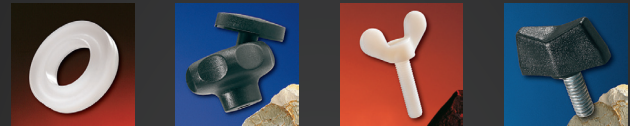
**LAWSON** Products

### Lawson Products Opens New Bolt Supply House Branch in Vancouver

Lawson Products, Inc.(NASDAQ:LAWS) a distributor of products and services to the MRO marketplace, announced the opening of a new The Bolt Supply House branch in Vancouver, British Columbia resulting in presence in all four Western Canada provinces. The 12,000 square-foot facility, located in the Port Kells industrial area of Surrey, British Columbia, is stocked with key industrial products including fasteners, power and hand tools, abrasives and safety products for companies and individuals. This strategically located facility enhances the ability of both The Bolt Supply House and Lawson Products to serve their customers, as Lawson Products will be occupying a portion of the warehouse space.

“The Bolt Supply House has been in Canada since 1948 and opening a branch in British Columbia is key to strengthening our supply chain regionally,” said Kurt Mario, president, The Bolt Supply House. “Recent competitor shifts have provided The Bolt Supply House opportunity in a sizable and growing market.”

Kevin Neal, who brings 35 years of British Columbia industrial distribution market experience to The Bolt Supply House, is managing the new branch. “Kevin and his team worked tirelessly to prepare the branch for business and are providing customers with the inventory, product knowledge and service that The Bolt Supply House is known for in the rest of Western Canada,” said Mario.



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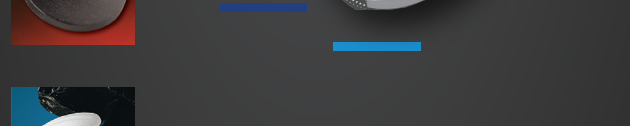
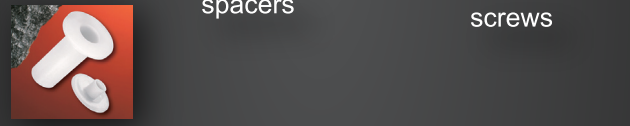
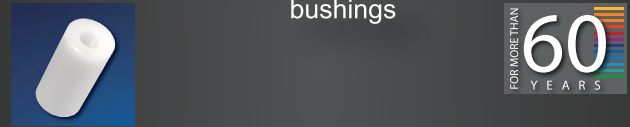


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## AFGlobal Commences Engineered Bolting Business



AFGlobal announced that it is launching a new API certified fastener business to enhance the Company's offshore and onshore production capabilities. This business is a natural extension of the Company's established OEM position with drilling and production technologies.

The new offering will feature engineered bolting for offshore and onshore oil and gas applications. Backed by API Monogram (20E and 20F standards), these fasteners will be built to withstand harsh high pressure/high temperature (HP/HT) environments, improving the safety and reliability of critical surface and subsea applications. These critical fasteners will be commercially available in the first quarter of 2019, answering client expectations of improved product traceability for unparalleled safety.

AFGlobal will secure all three bolting specification levels, including the highest stringency level (BSL-3) for technical, quality and qualification criteria. The Company already earned the API 16RCD Monogram for offshore drilling equipment, highlighting its commitment to the highest product standards.

AFGlobal is an oil and gas OEM specializing in technology, products, and services with fully integrated manufacturing capabilities to clients around the world. AFGlobal also offers a broad range of manufacturing capabilities with a variety of both highly-engineered and general forged products, as well as complementary aftermarket services. Headquartered in Houston, Texas, the Company delivers value through more than 20 facilities worldwide.

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### Fastenal and PPG Sends a Warning on China/U.S. Trade War

PPG Group manufacturing American coating, glass, fiber glass and chemical supplies warned on October 8 that its 3rd quarter EPS will be only USD 1.47-1.51 which is lower by USD 0.1 than the estimate of Thomson Reuters' analysis, due to rise of cost for materials and crude oil.

PPG president and CEO Michael McGarry said in a statement that the overall demand in China was weak in the third quarter. The demand in the lower end market decreased resulting in larger stockpiles for a number of American and European clients, leading to weak revenues for automotive refinishing. PPG's stock price took a dive by 10.06% on October 9.

In addition, Fastenal supplying American industrial and construction fasteners warned on October 10 that the tariff that the U.S. imposed on China products directly hits clients' industrial and construction supply chain in North America. Fastenal has over 10% of products manufactured in China, so the tariff by any means impacts the fastener business. Fastenal's stock price took a dive by 7.14% on October 10.

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## Tong Ming Group Enhances Collaboration with Other Distributors in the Ongoing China/U.S. Trade War

In response to the influence of China/U.S. trade war, Tong Ming Group, the manufacturer of 35,000 types of stainless steel fasteners, said it is enhancing collaboration with European, Southeast Asian and Australian distributors in the second half of 2018. Its overseas sales have exceeded 20% of the total sales. In the Group's perspective, stainless steel fasteners, screws, nuts, construction fasteners, stamped parts directly sold to the U.S. only take up 3% of the full-year revenues, which is lower than products sold indirectly to the U.S., and therefore the trade war has little impact on the Group.

Given the negative market sentiment in China, the Group decided to make closer collaboration with overseas distributors including a large German distributor valued at NTD 500 billion, a Southeast Asian distributor with a niche in corporate growth, and an Australian distributor willing to replace carbon steel fasteners with stainless steel fasteners thanks to the higher per capita national income in Australia, all for the sake of sustaining the Group's growth.

The Group's sales to overseas distributors took up 18.42% of the total revenues in 2017 and increased to 19.17% in the first half of this year. The Group expects to further increase its overseas sales proportion to at least over 20%. Its sales in China, judging from the effect of the trade war, is expected to be in a smaller growth momentum to land at 79,893 tons by a minor growth of 5% to 6%. The growth margin of sales is expected to return to 10% by next year.

## Hall of Fame at the International Fastener Expo Announced

The International Fastener Expo (IFE) has announced the winners of the 2018 Hall of Fame Awards. Each year, The Fastener Hall of Fame recognizes industry professionals who have made significant and enduring contributions to the industrial fastener industry on a national or global scale. In addition to their contributions, the award recipients are selected on the role they have played in the industry, their leadership skills in administrative and policy areas, and the educational contributions they have made to their companies and staff. This year's latest recipients, Bob Sachs and Robbie Gilchrist, will join other honored industry members, including but not limited to inventors, business leaders, and educators.

To make this year's selection IFE once again enlisted the assistance of the Fastener Industry Coalition (FIC) to review all nominations and determine this year's winners. FIC selected Mr. Bob Sachs, President and CEO of XL Screw Corporation, and Mr. Robbie Gilchrist, President, of Capital Marketing.

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