

**China Steel Chemical Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2018 and 2017 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
China Steel Chemical Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of China Steel Chemical Corporation (the Corporation) and its subsidiaries as of June 30, 2018 and 2017, the consolidated statements of comprehensive income for the three months and six months ended June 30, 2018 and 2017, and the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2018 and 2017, and related notes, including a summary of significant accounting policies (collectively referred to as the consolidated financial statements). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the financial position of the Corporation and its subsidiaries as of June 30, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three months and six months then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the FSC.

Emphasis of Matter

As disclosed in Note 3 to the consolidated financial statements, the Corporation and its subsidiaries are covered by the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the FSC starting from 2018.

The logo for Deloitte & Touche, featuring the company name in a stylized, cursive script.

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 8, 2018

Notice to Readers

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

For the convenience of readers, the independent auditors' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' review report and consolidated financial statements shall prevail. As stated in Note 4 to consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)		LIABILITIES AND EQUITY	June 30, 2018 (Reviewed)		December 31, 2017 (Audited)		June 30, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Note 6)	\$ 681,620	6	\$ 733,720	6	\$ 577,521	6	Short-term borrowings (Note 20)	\$ 2,042,060	17	\$ 1,985,337	18	\$ 745,871	7
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	2,052,973	18	2,209,270	20	1,955,527	19	Short-term bills payable (Note 20)	430,000	4	920,000	8	870,000	9
Available-for-sale financial assets - current (Notes 4 and 10)	-	-	154,945	1	181,115	2	Contract liabilities (Notes 4, 19 and 24)	43,708	-	-	-	-	-
Financial assets at fair value through other comprehensive income - current (Notes 4 and 8)	170,459	1	-	-	-	-	Accounts payable	55,102	1	44,512	-	27,560	-
Notes receivable (Notes 13 and 24)	18,575	-	47,724	-	22,810	-	Accounts payable - related parties (Note 30)	229,670	2	228,811	2	209,495	2
Accounts receivable, net (Notes 13 and 24)	428,565	4	426,953	4	376,851	4	Other payables (Notes 16, 21 and 30)	1,958,406	17	830,092	7	1,910,894	19
Accounts receivable - related parties (Notes 13, 24 and 30)	112,280	1	103,689	1	98,468	1	Current tax liabilities	167,788	1	69,590	1	70,785	1
Other receivables (Note 30)	390,806	3	300,762	3	441,334	4	Other current liabilities	9,283	-	100,152	1	39,733	-
Inventories (Note 14)	638,475	5	554,005	5	499,419	5	Total current liabilities	4,936,017	42	4,178,494	37	3,874,338	38
Other financial assets - current (Notes 15 and 19)	242,077	2	-	-	49,234	-	NONCURRENT LIABILITIES						
Other current assets	130,474	1	82,369	1	86,012	1	Long-term bank borrowings (Note 20)	100,000	1	-	-	-	-
Total current assets	4,866,304	41	4,613,437	41	4,288,291	42	Deferred tax liabilities	14,238	-	13,673	-	2,909	-
NONCURRENT ASSETS							Net defined benefit liabilities (Note 4)	161,582	1	166,762	2	159,175	1
Financial assets at fair value through profit or loss - noncurrent (Notes 4 and 7)	73,175	1	-	-	-	-	Other noncurrent liabilities (Note 19)	2,296	-	3,418	-	1,110	-
Available-for-sale financial assets - noncurrent (Notes 4 and 10)	-	-	72,648	1	78,972	1	Total noncurrent liabilities	278,116	2	183,853	2	163,194	1
Held-to-maturity financial assets - noncurrent (Notes 4 and 11)	-	-	102,360	1	104,630	1	Total liabilities	5,214,133	44	4,362,347	39	4,037,532	39
Financial assets measured at cost-noncurrent (Notes 4 and 9)	42,745	-	-	-	-	-	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 23)						
Debt investments with no active market - noncurrent (Notes 4 and 12)	-	-	92,922	1	91,719	1	Ordinary share capital	2,369,044	20	2,369,044	21	2,369,044	23
Investments accounted for using equity method (Note 17)	1,419,590	12	1,509,608	13	1,293,015	13	Capital surplus	798,777	7	755,849	7	732,977	7
Property, plant and equipment (Notes 18 and 30)	3,594,059	31	3,200,754	29	2,919,125	28	Retained earnings						
Investment properties (Note 19)	563,513	5	563,513	5	563,513	6	Legal reserve	2,413,957	21	2,369,044	21	2,369,044	23
Deferred tax assets	60,338	1	49,732	-	43,944	-	Special reserve	161,983	1	150,593	1	150,593	2
Prepaid equipment	458,843	4	392,976	4	251,356	2	Unappropriated earnings	676,899	6	1,164,646	11	549,087	5
Refundable deposits	8,321	-	7,000	-	5,231	-	Total retained earnings	3,252,839	28	3,684,283	33	3,068,724	30
Other financial assets - noncurrent (Notes 15 and 19)	-	-	1,112	-	1,112	-	Other equity	(151,983)	(1)	(161,983)	(2)	(129,329)	(1)
Long-term prepayments for lease (Note 30)	27,072	-	26,659	-	27,017	-	Treasury shares	(117,638)	(1)	(125,656)	(1)	(125,656)	(1)
Other noncurrent assets (Note 16)	622,317	5	602,816	5	618,236	6	Total equity attributable to owners of the Corporation	6,151,039	53	6,521,537	58	5,915,760	58
Total noncurrent assets	6,869,973	59	6,622,100	59	5,997,870	58	NON-CONTROLLING INTERESTS (Note 23)						
TOTAL	\$ 11,736,277	100	\$ 11,235,537	100	\$ 10,286,161	100	Total equity	6,522,144	56	6,873,190	61	6,248,629	61
							TOTAL	\$ 11,736,277	100	\$ 11,235,537	100	\$ 10,286,161	100

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

(With Deloitte & Touche review report dated August 8, 2018)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUES (Notes 24 and 30)								
Revenue from sales of goods	\$ 1,952,677	97	\$ 1,472,136	97	\$ 3,916,957	97	\$ 3,119,366	97
Other operating revenues	<u>66,760</u>	<u>3</u>	<u>42,307</u>	<u>3</u>	<u>114,997</u>	<u>3</u>	<u>82,323</u>	<u>3</u>
Total operating revenues	2,019,437	100	1,514,443	100	4,031,954	100	3,201,689	100
OPERATING COSTS (Notes 14, 25 and 30)	<u>1,486,729</u>	<u>74</u>	<u>1,153,726</u>	<u>76</u>	<u>2,988,373</u>	<u>74</u>	<u>2,452,971</u>	<u>77</u>
GROSS PROFIT	<u>532,708</u>	<u>26</u>	<u>360,717</u>	<u>24</u>	<u>1,043,581</u>	<u>26</u>	<u>748,718</u>	<u>23</u>
OPERATING EXPENSES (Notes 25 and 30)								
Selling and marketing expenses	34,346	2	34,694	2	69,102	2	55,150	2
General and administrative expenses	44,870	2	45,329	3	76,831	2	59,340	2
Research and development expenses	32,061	1	24,688	2	54,697	1	47,468	1
Expected credit loss	<u>2,159</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,159</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>113,436</u>	<u>5</u>	<u>104,711</u>	<u>7</u>	<u>202,789</u>	<u>5</u>	<u>161,958</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>419,272</u>	<u>21</u>	<u>256,006</u>	<u>17</u>	<u>840,792</u>	<u>21</u>	<u>586,760</u>	<u>18</u>
NON-OPERATING INCOME AND EXPENSES								
Other income (Notes 25 and 30)	14,008	1	13,782	1	67,435	2	38,541	1
Other gains and losses (Note 25)	23,188	1	27,898	2	(38,475)	(1)	(8,389)	-
Share of the profit of associates	10,264	-	8,121	-	20,309	-	17,558	1
Interest expense (Note 25)	<u>223</u>	<u>-</u>	<u>(2,641)</u>	<u>-</u>	<u>(4,202)</u>	<u>-</u>	<u>(5,166)</u>	<u>-</u>
Total non-operating income and expenses	<u>47,683</u>	<u>2</u>	<u>47,160</u>	<u>3</u>	<u>45,067</u>	<u>1</u>	<u>42,544</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	466,955	23	303,166	20	885,859	22	629,304	20
INCOME TAX EXPENSE (Notes 4 and 26)	<u>90,475</u>	<u>5</u>	<u>31,025</u>	<u>2</u>	<u>172,490</u>	<u>4</u>	<u>75,686</u>	<u>3</u>
NET PROFIT FOR THE PERIOD	<u>376,480</u>	<u>18</u>	<u>272,141</u>	<u>18</u>	<u>713,369</u>	<u>18</u>	<u>553,618</u>	<u>17</u>

(Continued)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (Note 23)								
Items that will not be reclassified subsequently to profit or loss								
Unrealized gains (loss) on financial assets at fair value through other comprehensive income	\$ 1,826	-	\$ -	-	\$ (4,460)	-	\$ -	-
Shares of the other comprehensive income (loss) of associates	6,939	1	-	-	(29,295)	(1)	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	-	2,035	-	-	-
Items that may be reclassified subsequently to profit or loss								
Exchange differences on translating the financial statements of foreign operations	47,561	2	6,600	-	26,315	1	(65,374)	(2)
Unrealized loss on available-for-sale financial assets	-	-	(5,955)	-	-	-	(1,990)	-
Cash flow hedges	-	-	1,197	-	-	-	568	-
Share of the other comprehensive income (loss) of associates	165	-	(17,892)	(1)	872	-	(2,687)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	-	-	(203)	-	-	-	(96)	-
Other comprehensive income (loss) for the period, net of income tax	56,491	3	(16,253)	(1)	(4,533)	-	(69,579)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 432,971</u>	<u>21</u>	<u>\$ 255,888</u>	<u>17</u>	<u>\$ 708,836</u>	<u>18</u>	<u>\$ 484,039</u>	<u>15</u>
NET PROFIT								
ATTRIBUTABLE TO:								
Owners of the Corporation	\$ 377,586		\$ 268,869		\$ 702,532		\$ 532,370	
Non-controlling interests	(1,106)		3,272		10,837		21,248	
	<u>\$ 376,480</u>		<u>\$ 272,141</u>		<u>\$ 713,369</u>		<u>\$ 553,618</u>	
TOTAL COMPREHENSIVE INCOME								
ATTRIBUTABLE TO:								
Owners of the Corporation	\$ 417,640		\$ 251,425		\$ 689,384		\$ 481,725	
Non-controlling interests	15,331		4,463		19,452		2,314	
	<u>\$ 432,971</u>		<u>\$ 255,888</u>		<u>\$ 708,836</u>		<u>\$ 484,039</u>	

(Continued)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
EARNINGS PER SHARE								
(Note 27)								
Basic	<u>\$ 1.63</u>		<u>\$ 1.16</u>		<u>\$ 3.03</u>		<u>\$ 2.30</u>	
Diluted	<u>\$ 1.63</u>		<u>\$ 1.16</u>		<u>\$ 3.02</u>		<u>\$ 2.29</u>	

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

(With Deloitte & Touche review report dated August 8, 2018)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Equity Attributable to Owners of the Corporation						Other Equity						Total Equity Attributable to Owners of the Corporation	Non-controlling Interests	Total Equity	
	Ordinary Share Capital	Capital Surplus	Retained Earnings			Total Retained Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gains and Losses on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedge	Gain (Loss) on Hedging Instruments	Total Other Equity				Treasury Shares
			Legal Reserve	Special Reserve	Unappropriated Earnings											
BALANCE AT JANUARY 1, 2018	\$ 2,369,044	\$ 755,849	\$ 2,369,044	\$ 150,593	\$ 1,164,646	\$ 3,684,283	\$ (62,873)	\$ (98,937)	\$ -	\$ (173)	\$ -	\$ (161,983)	\$ (125,656)	\$ 6,521,537	\$ 351,653	\$ 6,873,190
Effect of retrospective application and retrospective restatement	-	-	-	-	(45,689)	(45,689)	-	98,937	(74,316)	173	(173)	24,621	-	(21,068)	-	(21,068)
BALANCE AT JANUARY 1, 2018 AS RESTATED	2,369,044	755,849	2,369,044	150,593	1,118,957	3,638,594	(62,873)	-	(74,316)	-	(173)	(137,362)	(125,656)	6,500,469	351,653	6,852,122
Appropriation of 2017 earnings (Note 23)																
Legal reserve	-	-	115,984	-	(115,984)	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	11,390	(11,390)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	(71,071)	-	(1,018,689)	(1,089,760)	-	-	-	-	-	-	-	(1,089,760)	-	(1,089,760)
	-	-	44,913	11,390	(1,146,063)	(1,089,760)	-	-	-	-	-	-	-	(1,089,760)	-	(1,089,760)
Changes in capital surplus from investments in associates accounted for using the equity method	-	(487)	-	-	-	-	-	-	-	-	-	-	-	(487)	-	(487)
Net profit for the six months ended June 30, 2018	-	-	-	-	702,532	702,532	-	-	-	-	-	-	-	702,532	10,837	713,369
Other comprehensive income (loss) for the six months ended June 30, 2018, net of income tax	-	-	-	-	2,260	2,260	18,399	-	(33,980)	-	173	(15,408)	-	(13,148)	8,615	(4,533)
Total comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	704,792	704,792	18,399	-	(33,980)	-	173	(15,408)	-	689,384	19,452	708,836
Disposal of the Corporation's shares held by subsidiaries	-	43,415	-	-	-	-	-	-	-	-	-	-	8,018	51,433	-	51,433
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	(787)	(787)	-	-	787	-	-	787	-	-	-	-
BALANCE AT JUNE 30, 2018	\$ 2,369,044	\$ 798,777	\$ 2,413,957	\$ 161,983	\$ 676,899	\$ 3,252,839	\$ (44,474)	\$ -	\$ (107,509)	\$ -	\$ -	\$ (151,983)	\$ (117,638)	\$ 6,151,039	\$ 371,105	\$ 6,522,144
BALANCE AT JANUARY 1, 2017	\$ 2,369,044	\$ 732,977	\$ 2,291,205	\$ 242,136	\$ 1,069,083	\$ 3,602,424	\$ (972)	\$ (75,083)	\$ -	\$ (2,629)	\$ -	\$ (78,684)	\$ (125,656)	\$ 6,500,105	\$ 330,555	\$ 6,830,660
Appropriation of 2016 earnings (Note 23)																
Legal reserve	-	-	77,839	-	(77,839)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,066,070)	(1,066,070)	-	-	-	-	-	-	-	(1,066,070)	-	(1,066,070)
Reversal of special reserve	-	-	-	(91,543)	91,543	-	-	-	-	-	-	-	-	-	-	-
	-	-	77,839	(91,543)	(1,052,366)	(1,066,070)	-	-	-	-	-	-	-	(1,066,070)	-	(1,066,070)
Net profit for the six months ended June 30, 2017	-	-	-	-	532,370	532,370	-	-	-	-	-	-	-	532,370	21,248	553,618
Other comprehensive income (loss) for the six months ended June 30, 2017, net of income tax	-	-	-	-	-	-	(49,412)	(1,602)	-	369	-	(50,645)	-	(50,645)	(18,934)	(69,579)
Total comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	532,370	532,370	(49,412)	(1,602)	-	369	-	(50,645)	-	481,725	2,314	484,039
BALANCE AT JUNE 30, 2017	\$ 2,369,044	\$ 732,977	\$ 2,369,044	\$ 150,593	\$ 549,087	\$ 3,068,724	\$ (50,384)	\$ (76,685)	\$ -	\$ (2,260)	\$ -	\$ (129,329)	\$ (125,656)	\$ 5,915,760	\$ 332,869	\$ 6,248,629

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

(With Deloitte & Touche review report dated August 8, 2018)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 885,859	\$ 629,304
Adjustments for:		
Depreciation expense	133,368	131,675
Amortization expense	4,487	4,228
Expected credit loss	2,159	-
Reversal of impairment loss recognized on accounts receivable	-	(15,646)
Net gain on financial assets at fair value through profit or loss	(648)	(91,734)
Interest expense	4,202	5,166
Interest income	(8,249)	(8,647)
Dividend income	(1,547)	(2,446)
Share of the profit of associates	(24,694)	(19,445)
Loss (gain) on disposal of property, plant and equipment	(271)	358
Gain on disposal of investments	-	(3,285)
Gain on disposal of associates	(11,225)	-
Write-down of inventories	9,038	15,348
Changes in operating assets and liabilities		
Financial instruments held for trading	-	(66,773)
Financial instruments mandatorily classified as at fair value through profit or loss	40,141	-
Notes receivable	29,149	(7,311)
Accounts receivable	(3,749)	15,724
Accounts receivable - related parties	(8,591)	(8,843)
Other receivables	(57,809)	(142,169)
Inventories	(93,531)	(52,206)
Other current assets	(48,105)	(4,440)
Contract liabilities	(50,919)	-
Accounts payable	10,590	5,092
Accounts payable - related parties	859	25,359
Other payables	20,018	(83,488)
Other current liabilities	2,648	(6,220)
Net defined benefit liabilities	(5,180)	(4,447)
Cash generated from operations	828,000	315,154
Income taxes paid	(82,298)	(61,046)
Net cash generated from operating activities	<u>745,702</u>	<u>254,108</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through other comprehensive income	(46,816)	-
Acquisition of financial assets at amortized cost	(13,626)	-

(Continued)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
Proceeds from disposal of financial assets at amortized cost	\$ 63,980	\$ -
Acquisition of financial assets designated as at fair value through profit or loss	-	(1,213,722)
Acquisition of financial assets at fair value through profit or loss	(1,150,948)	-
Proceeds from disposal of financial assets designated as at fair value through profit or loss	-	232,117
Proceeds from disposal of financial assets at fair value through profit or loss	1,364,551	-
Proceeds from disposal of available-for-sale financial assets	-	8,930
Acquisition of debt investments with no active market	-	(18,597)
Proceeds from disposal of debt investments with no active market	-	20,000
Proceeds from disposal of investments accounted for using equity method	57,752	-
Proceeds from the capital reduction on investments accounted for using equity method	7,500	20,000
Acquisition of property, plant and equipment	(568,288)	(573,481)
Proceeds from disposal of property, plant and equipment	271	3
Increase in refundable deposits	(1,321)	(30)
Decrease (increase) in other financial assets	(240,965)	221,635
Increase in other noncurrent assets	(10,666)	(388)
Interest received	7,716	9,231
Dividends received	1,547	2,285
Net cash used in investing activities	<u>(529,313)</u>	<u>(1,292,017)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	3,210,775	2,330,946
Repayments of short-term borrowings	(3,154,052)	(2,306,351)
Proceeds from short-term bills payable	570,000	350,000
Repayments of short-term bills payable	(1,060,000)	(100,000)
Increase in long-term bank borrowings	100,000	-
Decrease in other noncurrent liabilities	(12)	-
Proceeds from disposal of treasury shares	51,433	-
Interest paid	(9,684)	(5,377)
Net cash generated from (used in) financing activities	<u>(291,540)</u>	<u>269,218</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>23,051</u>	<u>(25,612)</u>

(Continued)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2018	2017
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (52,100)	\$ (794,303)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>733,720</u>	<u>1,371,824</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 681,620</u>	<u>\$ 577,521</u>

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

(Concluded)

(With Deloitte & Touche review report dated August 8, 2018)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

China Steel Chemical Corporation (the “Corporation”) was incorporated by China Steel Corporation (CSC) and other shareholders in February 1989. The Corporation started operations in May 1993, and CSC is the parent company that has substantive control over the Corporation. As of June 30, 2018 and 2017, CSC owned 29.04% of the Corporation’s voting shares. The Corporation mainly engages in the production, processing and sales of coal tar distillation products, Naphtha products and coke products; in addition, it also trades related upstream and downstream products.

The shares of the Corporation have been listed and traded on the Taiwan Stock Exchange since November 1998.

The Corporation’s functional currency is the New Taiwan dollar; the consolidated financial statements of the Corporation and its subsidiaries are presented in New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the Corporation’s board of directors and approved for issue on August 8, 2018.

3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

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

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

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

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Corporation and its subsidiaries has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Corporation and its subsidiaries' financial assets and financial liabilities as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 733,720	\$ 733,720	
Equity securities	Designated as at FVTPL	Mandatorily at FVTPL	1,497,762	1,497,762	a)
	Held-for-trading	Mandatorily at FVTPL	711,508	711,508	
	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	128,104	128,104	a)
	Available-for-sale	Mandatorily at FVTPL	99,489	99,489	a)
Debt investment	Held-to-maturity	Mandatorily at FVTPL	102,360	81,292	c)
	Debt Investments with no active market	Amortized cost	92,922	92,922	b)
Notes and accounts receivable(including related parties), other receivables, other financial assets and refundable deposits	Loans and receivables	Amortized cost	887,240	887,240	

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL - current	\$ 2,209,270	\$ -	\$ -	\$ 2,209,270	\$ -	\$ -	
Add: Reclassification from available-for-sale (IAS 39) Required reclassification Fair value option elected at January 1, 2018	-	26,841	-	26,841	(519)	519	a)
	<u>2,209,270</u>	<u>26,841</u>	<u>-</u>	<u>2,236,111</u>	<u>(519)</u>	<u>519</u>	
FVTPL - noncurrent	-	-	-	-	-	-	
Add: Reclassification from held-to-maturity (IAS 39) Required reclassification fair value option elected at January 1, 2018	-	102,360	(21,068)	81,292	(21,068)	-	c)
Add: Reclassification from available-for-sale (IAS 39) Required reclassification fair value option elected at January 1, 2018	-	72,648	-	72,648	(11,699)	11,699	a)
	<u>-</u>	<u>175,008</u>	<u>(21,068)</u>	<u>153,940</u>	<u>(32,767)</u>	<u>11,699</u>	
FVTOCI - current	-	-	-	-	-	-	
Add: Reclassification from available-for-sale (IAS 39)	-	128,104	-	128,104	-	-	a)
	<u>-</u>	<u>128,104</u>	<u>-</u>	<u>128,104</u>	<u>-</u>	<u>-</u>	
Financial assets measured at cost	-	-	-	-	-	-	
Add: Reclassification from debt investment with no active market	-	92,922	-	92,922	-	-	b)
	<u>-</u>	<u>92,922</u>	<u>-</u>	<u>92,922</u>	<u>-</u>	<u>-</u>	
	<u>\$ 2,209,270</u>	<u>\$ 422,875</u>	<u>\$ (21,068)</u>	<u>\$ 2,611,077</u>	<u>\$ (33,286)</u>	<u>\$ 12,218</u>	

a) The Corporation and its subsidiaries elected to designate all of its investments in listed shares, emerging market shares and unlisted shares previously classified as available-for-sale under IAS 39 as at FVTPL or FVTOCI under IFRS 9. As a result, the related other equity - unrealized

loss on available-for-sale financial assets in the amount of NT\$98,937 thousand was reclassified to retained earnings in the amount of NT\$24,621 thousand and to other equity - unrealized loss on financial assets at FVTOCI in the amount of NT\$74,316 thousand. The decrease of retained earnings included unrealized loss on available-for-sale of NT\$12,218 thousand and shares of the other comprehensive loss of associates of NT\$12,403 thousand.

- b) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- c) Debt investments previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at FVTPL under IFRS 9, because on January 1, 2018, the contractual cash flows were not solely payments of principal and interest on the principal outstanding. As a result of retrospective application, a decrease in retained earnings of NT\$21,068 thousand on January 1, 2018.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Please refer to Note 4 for related accounting policies.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, receivable was recognized when revenue was recognized for the relevant contract under IAS 18.

In addition, the Corporation and its subsidiaries elected only to retrospectively apply IFRS 15 to contracts that were not completed on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

Impact on assets, liabilities and equity for prior periods

	As Originally Stated as of January 1, 2018	Adjustments Arising from Initial Application	Restated as of January 1, 2018
Other current liabilities	\$ 100,152	\$ (94,627)	\$ 5,525
Contract liability - current	-	94,627	94,627
Other noncurrent liabilities	3,418	(1,110)	2,308
Contract liability - noncurrent	<u>-</u>	<u>1,110</u>	<u>1,110</u>
Total effect on liabilities	<u>\$ 103,570</u>	<u>\$ -</u>	<u>\$ 103,570</u>

If the Corporation and its subsidiaries continue to adopt IAS 18 in 2018, the impact on the current period of the application of IFRS 15 is detailed below:

	June 30, 2018
Decrease in contract liabilities - current	\$ (43,708)
Increase in other current liabilities	<u>43,708</u>
Total	<u>\$ -</u>

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

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

Note 3: The Corporation and its subsidiaries shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

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

Definition of a lease

Upon initial application of IFRS 16, the Corporation and its subsidiaries will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Corporation and its subsidiaries as lessee

Upon initial application of IFRS 16, the Corporation and its subsidiaries will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Corporation and its subsidiaries will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within financing activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Corporation and its subsidiaries anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate.

The Corporation and its subsidiaries expects to apply the following practical expedients:

- a) The Corporation and its subsidiaries will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Corporation and its subsidiaries will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Corporation and its subsidiaries will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Corporation and its subsidiaries will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

The Corporation and its subsidiaries as lessor

The Corporation and its subsidiaries will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

2) IFRIC 23 "Uncertainty Over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Corporation and its subsidiaries should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Corporation and its subsidiaries concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Corporation and its subsidiaries should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Corporation and its subsidiaries should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Corporation and its subsidiaries expects to better predict the resolution of the uncertainty. The Corporation and its subsidiaries has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Corporation and its subsidiaries shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were reported to the board of directors for issue, the Corporation and its subsidiaries are continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation and its subsidiaries' financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

As of the date the consolidated financial statements were reported to the board of directors for issue, the Corporation and its subsidiaries are continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation and its subsidiaries’ financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

- b. Basis of preparation

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

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

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

- c. Basis of consolidation

Refer to Note 16 for the detail information of subsidiaries (including the percentage of ownership and main business).

- d. Other significant accounting policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017.

1) Financial instruments (applied in 2018)

Financial assets and financial liabilities are recognized when the Corporation and its subsidiaries becomes a party to the contractual provisions of the instruments.

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

Financial assets

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

a) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and equity instruments at FVTOCI.

i Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 29.

ii Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

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

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes and accounts receivables (including related parties), other receivables, financial assets measured at cost-noncurrent, refundable deposits and other financial assets, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- ii) Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii Investments in equity instruments at FVTOCI

On initial recognition, the Corporation and its subsidiaries may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Corporation and its subsidiaries' right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

The Corporation and its subsidiaries recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Corporation and its subsidiaries always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Corporation and its subsidiaries recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Corporation and its subsidiaries measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Corporation and its subsidiaries recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

c) Derecognition of financial assets

The Corporation and its subsidiaries derecognizes a financial asset only when the contractual

rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Revenue recognition (applied in 2018)

The Corporation and its subsidiaries identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

For contract where the period between the date the Corporation and its subsidiaries transfers a promised good or service to a customer and the date the customer pays for that good or service is one year or less, the Corporation and its subsidiaries does not adjust the promised amount of consideration for the effects of a significant financing component.

a) Revenue from sale of goods

Sales of goods are recognized as revenue when the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence. Accounts receivable is recognized concurrently. Advance received from customers is recognized as a contract liability.

The Corporation and its subsidiaries does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

b) Revenue from rendering of services

Service income is recognized when services are provided.

3) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

4) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2017.

6. CASH AND CASH EQUIVALENTS

	June 30, 2018	December 31, 2017	June 30, 2017
Cash on hand	\$ 555	\$ 400	\$ 400
Checking accounts and demand deposits	514,850	456,350	398,105
Cash equivalents			
Time deposits with original maturities less than three months	<u>166,215</u>	<u>276,970</u>	<u>179,016</u>
	<u>\$ 681,620</u>	<u>\$ 733,720</u>	<u>\$ 577,521</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVTPL - current

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Financial assets designated as at FVTPL</u>			
Non-derivative financial assets			
Mutual funds	\$ -	\$ 1,450,894	\$ 1,294,260
Domestic quoted shares	-	5,970	11,250
Foreign quoted shares	<u>-</u>	<u>40,898</u>	<u>33,977</u>
	<u>-</u>	<u>1,497,762</u>	<u>1,339,487</u>
<u>Financial assets mandatorily classified as at FVTPL</u>			
Non-derivative financial assets			
Mutual funds	1,466,377	-	-
Domestic quoted shares	564,289	-	-
Foreign quoted shares	<u>22,307</u>	<u>-</u>	<u>-</u>
	<u>2,052,973</u>	<u>-</u>	<u>-</u>
<u>Financial assets held for trading</u>			
Non-derivative financial assets			
Domestic quoted shares	-	556,538	495,844
Mutual funds	<u>-</u>	<u>154,970</u>	<u>120,196</u>
	<u>-</u>	<u>711,508</u>	<u>616,040</u>
	<u>\$ 2,052,973</u>	<u>\$ 2,209,270</u>	<u>\$ 1,955,527</u>

Financial assets at FVTPL - noncurrent

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets mandatorily classified as at FVTPL			
<hr/>			
Non-derivative financial assets			
Emerging market shares	\$ 17,155	\$ -	\$ -
Unquoted ordinary shares	<u>56,020</u>	<u>-</u>	<u>-</u>
	<u>\$ 73,175</u>	<u>\$ -</u>	<u>\$ -</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - CURRENT

	June 30, 2018
Domestic investments	
Ordinary shares	\$ 160,761
Preference shares	<u>9,698</u>
	<u>\$ 170,459</u>

These investments in equity instruments are held with the Corporation and its subsidiaries' strategy not for the purposes of trading and short-term profit. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 10 for information relating to their reclassification and comparative information for 2017.

9. FINANCIAL ASSETS AT AMORTIZED COST - NONCURRENT

	June 30, 2018
Corporate Bonds - IL & FS Transportation Networks Limited	\$ 13,801
Corporate Bonds - Industrial & Commercial Ltd.	9,604
Corporate Bonds - Ping An Insurance Company of China Ltd.	9,017
Corporate Bonds - GAZPROM BANK	6,214
Subordinated financial Bonds - Australia and New Zealand Bank	<u>4,109</u>
	<u>\$ 42,745</u>

The bonds were classified as debt investments with no active market under IAS 39. Refer to Note 3 and Note 12 for information relating to their reclassification and comparative information for 2017.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017	June 30, 2017
Current		
<hr/>		
Domestic investments		
Quoted shares	\$ <u>154,945</u>	\$ <u>181,115</u>
Noncurrent		
<hr/>		
Domestic investments		
Emerging market shares	\$ 16,327	\$ 19,730
Unquoted ordinary shares	<u>56,321</u>	<u>59,242</u>
	<u>\$ 72,648</u>	<u>\$ 78,972</u>

11. HELD-TO-MATURITY FINANCIAL ASSETS - 2017

	December 31, 2017	June 30, 2017
Foreign investment		
Structured bonds	\$ <u>102,360</u>	\$ <u>104,630</u>

The Corporation and its subsidiaries' investments in foreign structured bonds at the balance sheet date were as follows:

	December 31, 2017	June 30, 2017
At par value (USD in thousand)	\$ <u>3,440</u>	\$ <u>3,440</u>
Coupon rates (%)	7-9	7-9
Average years to maturity	8-11 years	8-11 years

The structured bonds were classified as held-to-maturity financial assets under IAS 39, but were classified as financial assets at fair value through profit or loss under IFRS 9 starting from 2018 and were disposed of in January 2018.

12. DEBT INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT - 2017

	December 31, 2017	June 30, 2017
Corporate Bonds - Cayman Ton Yi Industrial Holdings Limited	\$ 41,085	\$ 40,374
Corporate Bonds - Haikou Melian International Airport	13,682	13,447
Corporate Bonds - ICBCIL Finance Company Ltd.	9,563	9,399
Corporate Bonds - Industrial & Commercial Bank of China Ltd.	9,545	9,381
Corporate Bonds - Ping An Insurance Company of China	8,961	8,808

(Continued)

	December 31, 2017	June 30, 2017
Corporate Bonds - GAZPROM Bank	\$ 6,071	\$ 6,206
Subordinated Financial Bonds - Australia and New Zealand Bank	<u>4,015</u>	<u>4,104</u>
	<u>\$ 92,922</u>	<u>\$ 91,719</u> (Concluded)

13. NOTES AND ACCOUNTS RECEIVABLE, NET (INCLUDING RELATED PARTIES)

	June 30, 2018	December 31, 2017	June 30, 2017
Notes receivable			
Operating	<u>\$ 18,575</u>	<u>\$ 47,724</u>	<u>\$ 22,810</u>
Accounts receivable (including related parties)			
At amortized cost			
Gross carrying amount	\$ 546,022	\$ 533,682	\$ 490,159
Less: Allowance for impairment loss	<u>5,177</u>	<u>3,040</u>	<u>14,840</u>
	<u>\$ 540,845</u>	<u>\$ 530,642</u>	<u>\$ 475,319</u>

For the six months ended June 30, 2018

The average credit period of sales of goods was 30-90 days. No interest was charged on accounts receivables. The Corporation and its subsidiaries adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

In order to minimize credit risk, the management of the Corporation and its subsidiaries has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Corporation and its subsidiaries reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Corporation and its subsidiaries' credit risk was significantly reduced.

The Corporation and its subsidiaries applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all accounts receivables. The expected credit losses on accounts receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Corporation and its subsidiaries' historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Corporation and its subsidiaries' different customer base.

The following table details the loss allowance of accounts receivables based on the Corporation and its subsidiaries' provision matrix.

June 30, 2018

	Not Past Due	1 to 30 Days	31 to 60 Days	61 to 180 Days	181 to 365 Days	Over 365 Days	Total
Expected credit loss rate (%)	-	-	-	100	-	47	-
Gross carrying amount	\$ 554,543	\$ 457	\$ 1,035	\$ 2,137	\$ -	\$ 6,425	\$ 564,597
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,137)</u>	<u>-</u>	<u>(3,040)</u>	<u>(5,177)</u>
Amortized cost	<u>\$ 554,543</u>	<u>\$ 457</u>	<u>\$ 1,035</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,385</u>	<u>\$ 559,420</u>

The movements of the loss allowance of notes and accounts receivable were as follow:

	For the Six Months Ended June 30, 2018
Balance at January 1 (IAS 39)	\$ 3,040
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1 (IFRS 9)	3,040
Recognition	2,159
Effect of foreign currency exchange differences	<u>(22)</u>
Balance at June 30	<u>\$ 5,177</u>

For the six months ended June 30, 2017

The Corporation and its subsidiaries applied the same credit policy in 2018 and 2017. The Corporation and its subsidiaries assess allowance for bad debt by referring to the doubtful account aging analysis, historical experience, and the current financial situation of the client and any change in the client's credit quality.

The aging of notes and accounts receivable were as follows:

	December 31, 2017	June 30, 2017
Not past due	\$ 562,056	\$ 487,915
Up to 30 days	10,104	1,313
31-60 days	775	2,348
61-180 days	2,046	-
More than 365 days	<u>6,425</u>	<u>21,393</u>
	<u>\$ 581,406</u>	<u>\$ 512,969</u>

Above analysis was based on the past due days from end of credit term.

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

The accounts receivable that were past due and individually impaired (before subtracting the allowance for bad debt) were as follows:

	December 31, 2017	June 30, 2017
More than 365 days	<u>\$ 6,425</u>	<u>\$ 21,393</u>

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

	December 31, 2017	June 30, 2017
Up to 30 days	\$ 10,104	\$ 1,313
31-60 days	775	2,348
61-180 days	<u>2,046</u>	<u>-</u>
	<u>\$ 12,925</u>	<u>\$ 3,661</u>

The movements of the allowance for impairment loss were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ 30,486	\$ -	\$ 30,486
Reversal of impairment loss	<u>(15,646)</u>	<u>-</u>	<u>(15,646)</u>
Balance at June 30, 2017	<u>\$ 14,840</u>	<u>\$ -</u>	<u>\$ 14,840</u>

14. INVENTORIES

	June 30, 2018	December 31, 2017	June 30, 2017
Finished goods	\$ 371,790	\$ 372,600	\$ 352,362
Work in progress	85,175	48,938	48,179
Raw materials	99,986	45,489	41,720
Supplies	81,462	86,978	56,944
Merchandise	<u>62</u>	<u>-</u>	<u>214</u>
	<u>\$ 638,475</u>	<u>\$ 554,005</u>	<u>\$ 499,419</u>

The cost of inventories recognized as cost of goods sold for the three months and six months ended June 30, 2018 and 2017 was NT\$1,467,093 thousand, NT\$1,139,880 thousand, NT\$2,951,432 thousand and NT\$2,425,962 thousand, respectively. The cost of goods sold included inventory write-downs of NT\$4,821 thousand, NT\$3,367 thousand, NT\$9,038 thousand and NT\$15,348 thousand, respectively.

15. OTHER FINANCIAL ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Current</u>			
Time deposits with original maturities more than three months	\$ 240,965	\$ -	\$ -
Deposits for projects (Note 19)	1,112	-	-
			(Continued)

	June 30, 2018	December 31, 2017	June 30, 2017
Deposits of designated hedging foreign-currency	\$ _____ -	\$ _____ -	\$ 49,234
	<u>\$ 242,077</u>	<u>\$ _____ -</u>	<u>\$ 49,234</u>
<u>Noncurrent</u>			
Deposits for projects (Note 19)	<u>\$ _____ -</u>	<u>\$ 1,112</u>	<u>\$ 1,112</u> (Concluded)

The unrealized gains and losses arising from this foreign currency valuation were recognized in other comprehensive income under cash flow hedges. The period of expected cash flow in the next 12 months from the foreign currency deposit is the same as the payment period of the equipment. The unrealized gains and losses are expected to realize as depreciation expenses along with the depreciation of the equipment.

Movements of unrealized gains and losses arising from the valuation of other financial assets for the cash flow hedge were as follows:

	For the Six Months Ended June 30, 2017
Balance at January 1, 2017	\$ (3,044)
Recognized in other comprehensive income	(798)
Transferred to prepaid equipment	<u>1,366</u>
Balance at June 30, 2017	<u>\$ (2,476)</u>

16. SUBSIDIARIES

The consolidated entities were as follows:

Investor	Investee	Main Businesses	Percentage of Ownership (%)		
			June 30, 2018	December 31, 2017	June 30, 2017
China Steel Chemical Corporation (CSCC)	Ever Wealthy International Corporation (EWI)	General investment	100	100	100
	Ever Glory International Co., Ltd. (EGI)	International trading	100	100	100
	Formosa Ha Tinh CSCC (Cayman) International Limited (CSCCC)	International trading	50	50	50
Ever Wealthy International Corporation	China Steel Carbon Materials Technology Co., Ltd. (CSCM)	General investment	100	100	100
China Steel Carbon Materials Technology Co., Ltd.	Changzhou China Steel New Materials Technology Co., Ltd. (CCSNM)	Processing and trading of asphalt mesocarbon microbeads product	100	100	100

In October 2015, the Corporation entered into a joint venture and collaboration agreement with Formosa Ha Tinh (Cayman) and Formosa Ha Tinh Steel Corporation (Formosa Ha Tinh). According to the agreement, CSCCC was to be established through a joint investment from the Corporation and Formosa Ha Tinh (Cayman) in which the Corporation would own 50% of the equity. The Corporation had control-in-substance over CSCCC, since it assigned the key management personnel and controlled the

mainly operating activities of CSCCC. CSCCC was established in January 2016 with a paid-in capital of USD10,000 thousand from the Corporation. As of June 30, 2018, USD3,000 thousand has been paid to this account.

According to the joint venture and collaboration agreement, CSCCC should pay USD18,580 thousand to Formosa Ha Tinh to acquire the underwriting premium from Formosa Ha Tinh for its produced coal tar products, naphtha products and coke (listed under other noncurrent assets). As of June 30, 2018, this account has not been paid and is listed under other payables.

17. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The Corporation and its subsidiaries' investments accounted for using equity method were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Material associates			
CHC Resources Corporation (CHC)	\$ 266,798	\$ 259,959	\$ 234,973
Transglory Investment Corporation (TIC)	<u>519,120</u>	<u>545,501</u>	<u>525,781</u>
	785,918	805,460	760,754
Associates that are not individually material	<u>633,672</u>	<u>704,148</u>	<u>532,261</u>
	<u>\$ 1,419,590</u>	<u>\$ 1,509,608</u>	<u>\$ 1,293,015</u>

a. Material associates

Name of Associate	<u>Proportion of Ownership and Voting Rights (%)</u>		
	June 30, 2018	December 31, 2017	June 30, 2017
CHC	6	6	6
TIC	9	9	9

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

	June 30, 2018	December 31, 2017	June 30, 2017
CHC	<u>\$ 801,487</u>	<u>\$ 805,583</u>	<u>\$ 755,063</u>

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

CHC

	June 30, 2018	December 31, 2017	June 30, 2017
Current assets	\$ 2,689,016	\$ 2,436,204	\$ 1,771,364
Noncurrent assets	6,598,578	5,302,660	5,164,051
Current liabilities	(3,258,900)	(2,432,308)	(2,482,037)

(Continued)

	June 30, 2018	December 31, 2017	June 30, 2017
Noncurrent liabilities	\$ (1,481,454)	\$ (866,763)	\$ (467,827)
Equity	4,547,240	4,439,793	3,985,551
Non-controlling interests	<u>(130,061)</u>	<u>(135,835)</u>	<u>(94,993)</u>
	<u>\$ 4,417,179</u>	<u>\$ 4,303,958</u>	<u>\$ 3,890,558</u>
Proportion of the Corporation and its subsidiaries' ownership (%)	6	6	6
Equity attributable to the Corporation and its subsidiaries	<u>\$ 266,798</u>	<u>\$ 259,959</u>	<u>\$ 234,973</u>
Carrying amount	<u>\$ 266,798</u>	<u>\$ 259,959</u>	<u>\$ 234,973</u> (Concluded)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Operating revenue	<u>\$ 2,335,152</u>	<u>\$ 1,649,712</u>	<u>\$ 4,453,487</u>	<u>\$ 3,302,178</u>
Net profit for the period	\$ 189,947	\$ 134,388	\$ 360,815	\$ 308,207
Other comprehensive income (loss)	<u>8,732</u>	<u>(16,306)</u>	<u>(17,330)</u>	<u>(17,734)</u>
Total comprehensive income	<u>\$ 198,679</u>	<u>\$ 118,082</u>	<u>\$ 343,485</u>	<u>\$ 290,473</u>

TIC

	June 30, 2018	December 31, 2017	June 30, 2017
Current assets	\$ 14,290	\$ 644	\$ 4,877
Noncurrent assets	6,271,667	6,429,601	6,417,849
Current liabilities	<u>(643,343)</u>	<u>(500,883)</u>	<u>(707,717)</u>
Equity	<u>\$ 5,642,614</u>	<u>\$ 5,929,362</u>	<u>\$ 5,715,009</u>
Proportion of the Corporation and its subsidiaries' ownership (%)	9	9	9
Equity attributable to the Corporation and its subsidiaries	<u>\$ 519,120</u>	<u>\$ 545,501</u>	<u>\$ 525,781</u>
Carrying amount	<u>\$ 519,120</u>	<u>\$ 545,501</u>	<u>\$ 525,781</u>

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Operating Revenue	\$ -	\$ -	\$ -	\$ -
Net loss for the period	\$ (5,109)	\$ (5,532)	\$ (10,124)	\$ (10,742)
Other comprehensive income (loss)	<u>66,911</u>	<u>(145,342)</u>	<u>(276,624)</u>	<u>26,426</u>
Total comprehensive income (loss)	<u>\$ 61,802</u>	<u>\$ (150,874)</u>	<u>\$ (286,748)</u>	<u>\$ 15,684</u>

b. Aggregate information of associates that are not individually material

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
The Corporation and its subsidiaries' share of Net profit for the period	\$ 1,607	\$ 1,252	\$ 4,149	\$ 933
Other comprehensive loss	<u>(53)</u>	<u>(3,543)</u>	<u>(2,906)</u>	<u>(4,086)</u>
Total comprehensive income (loss)	<u>\$ 1,554</u>	<u>\$ (2,291)</u>	<u>\$ 1,243</u>	<u>\$ (3,153)</u>

Except for the listed companies, United Steel International Development Co. (USID), TIC, and CSC Solar Corporation which financial statements were reviewed, the investments of the Corporation and its subsidiaries accounted for using the equity method as of June 30, 2018 and 2017, and the related share of the comprehensive income for the three months and six months ended June 30, 2018 and 2017, were calculated based on the unreviewed financial statements of the investees. The Corporation and its subsidiaries' management considered the use of unreviewed financial statements as acceptable and will not have material impact on the equity method investments and income.

The Corporation and its subsidiaries held more than 20% of the shares with CSC and fellow subsidiaries and accounted for using the equity method.

18. PROPERTY, PLANT AND EQUIPMENT

For the Six Months Ended June 30, 2018

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in Progress	Total
Cost							
Balance at January 1, 2018	\$ 1,145,237	\$ 572,610	\$ 3,672,474	\$ 97,342	\$ 112,682	\$ 1,050,794	\$ 6,651,139
Additions	-	3,600	68,202	7,644	1,803	445,190	526,439
Disposals	-	-	(2,892)	(916)	(74)	-	(3,882)
Effect of foreign currency exchange differences	-	-	(1,152)	(16)	91	-	(1,077)
Balance at June 30, 2018	<u>\$ 1,145,237</u>	<u>\$ 576,210</u>	<u>\$ 3,736,632</u>	<u>\$ 104,054</u>	<u>\$ 114,502</u>	<u>\$ 1,495,984</u>	<u>\$ 7,172,619</u>

(Continued)

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in Progress	Total
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 264,959	\$ 3,024,944	\$ 72,866	\$ 87,616	\$ -	\$ 3,450,385
Depreciation expense	-	14,700	108,725	4,545	5,398	-	133,368
Disposals	-	-	(2,892)	(916)	(74)	-	(3,882)
Effect of foreign currency exchange differences	-	-	(1,346)	4	31	-	(1,311)
Balance at June 30, 2018	<u>\$ -</u>	<u>\$ 279,659</u>	<u>\$ 3,129,431</u>	<u>\$ 76,499</u>	<u>\$ 92,971</u>	<u>\$ -</u>	<u>\$ 3,578,560</u>
Carrying amount at December 31, 2017	<u>\$ 1,145,237</u>	<u>\$ 307,651</u>	<u>\$ 647,530</u>	<u>\$ 24,476</u>	<u>\$ 25,066</u>	<u>\$ 1,050,794</u>	<u>\$ 3,200,754</u>
Carrying amount at June 30, 2018	<u>\$ 1,145,237</u>	<u>\$ 296,551</u>	<u>\$ 607,201</u>	<u>\$ 27,555</u>	<u>\$ 21,531</u>	<u>\$ 1,495,984</u>	<u>\$ 3,594,059</u>

(Concluded)

For the Six Months Ended June 30, 2017

	Land	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 1,145,237	\$ 467,277	\$ 3,587,378	\$ 94,165	\$ 110,579	\$ 371,085	\$ 5,775,721
Additions	-	18,087	59,954	3,089	1,385	392,747	475,262
Disposals	-	-	(8,788)	(115)	(270)	-	(9,173)
Effect of foreign currency exchange differences	-	-	(715)	(48)	(437)	-	(1,200)
Balance at June 30, 2017	<u>\$ 1,145,237</u>	<u>\$ 485,364</u>	<u>\$ 3,637,829</u>	<u>\$ 97,091</u>	<u>\$ 111,257</u>	<u>\$ 763,832</u>	<u>\$ 6,240,610</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 237,889	\$ 2,820,825	\$ 63,676	\$ 76,457	\$ -	\$ 3,198,847
Depreciation expense	-	12,858	108,491	4,639	5,687	-	131,675
Disposals	-	-	(8,429)	(113)	(270)	-	(8,812)
Effect of foreign currency exchange differences	-	-	(79)	(23)	(123)	-	(225)
Balance at June 30, 2017	<u>\$ -</u>	<u>\$ 250,747</u>	<u>\$ 2,920,808</u>	<u>\$ 68,179</u>	<u>\$ 81,751</u>	<u>\$ -</u>	<u>\$ 3,321,485</u>
Carrying amount at June 30, 2017	<u>\$ 1,145,237</u>	<u>\$ 234,617</u>	<u>\$ 717,021</u>	<u>\$ 28,912</u>	<u>\$ 29,506</u>	<u>\$ 763,832</u>	<u>\$ 2,919,125</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over the following useful lives:

Buildings	
Main structure	2-50 years
Facility	5-25 years
Machinery and equipment	
Power equipment	3-15 years
Examination equipment	3-10 years
Computer equipment	3-10 years
Transportation equipment	
Transportation equipment	3-5 years
Telecommunication equipment	3-10 years
Other equipment	
Extinguishment equipment	5-8 years
Air condition and utilities equipment	3-10 years
Monitoring, office and other equipment	3-10 years

19. INVESTMENT PROPERTIES

For the Six Months Ended June 30, 2018

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2018 and June 30, 2018	<u>\$ 572,338</u>	<u>\$ 47,665</u>	<u>\$ 620,003</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2018 and June 30, 2018	<u>\$ 8,825</u>	<u>\$ 47,665</u>	<u>\$ 56,490</u>
Carrying amount at January 1, 2018 and June 30, 2018	<u>\$ 563,513</u>	<u>\$ -</u>	<u>\$ 563,513</u>

For the Six Months Ended June 30, 2017

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2017 and June 30, 2017	<u>\$ 572,338</u>	<u>\$ 47,665</u>	<u>\$ 620,003</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2017 and June 30, 2017	<u>\$ 8,825</u>	<u>\$ 47,665</u>	<u>\$ 56,490</u>
Carrying amount at January 1, 2017 and June 30, 2017	<u>\$ 563,513</u>	<u>\$ -</u>	<u>\$ 563,513</u>

Buildings classified as investment properties are depreciated on a straight line basis over 50 years.

The Corporation participated in “Qianzhen Residential Building Project” conducted by the fellow subsidiary China Prosperity Development Corporation and signed land purchase agreement cost NT\$10,525 thousand in June 2015 and recognized as investment properties. The Corporation also signed land purchase agreement with its employees. According to the purchase agreement, land prices received from employees were deposited in Bank of Taiwan and recognized as other financial assets - noncurrent with contra other noncurrent liabilities, as of December 31, 2017 and June 30, 2017. Since the project was expected to be completed, it was transferred to other financial assets - current and contract liabilities - current. After the transfer of land ownership is completed, the disposal gain will be recognized.

As of June 30, 2018, December 31, 2017 and June 30, 2017, the fair value of investment properties were all NT\$863,606 thousand. The fair value was based on the appraisal value presented by independent qualified professional appraiser using Level 3 inputs and with reference to comparison of the similar transaction price in the market, and by income approach and land developing analysis approach. The significant and unobservable inputs included the rate of capitalization of return and related fee rates in March 2015 and December 2015.

All of the Corporation’s investment properties are held under freehold interests.

Refer to Note 30 for the lease transactions conducted with related party.

20. BORROWINGS

a. Short-term borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
Bank loans - interest at 0.7%-0.86% p.a. ,0.7%-2.2% p.a. and 0.7% p.a. as of June 30, 2018 and December 31, 2017, and June 30, 2017 respectively	\$ 2,007,000	\$ 1,818,000	\$ 720,000
Letters of credit borrowings - interest at 0.99%-1.1% p.a., 0.99%-1.1% p.a. and 1.1% p.a. as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively	<u>35,060</u>	<u>167,337</u>	<u>25,871</u>
	<u>\$ 2,042,060</u>	<u>\$ 1,985,337</u>	<u>\$ 745,871</u>

b. Short-term bills payable

	June 30, 2018	December 31, 2017	June 30, 2017
Commercial papers - interest at 0.898% p.a., 0.898% p.a. and 0.898% p.a. as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively	\$ 430,000	\$ 920,000	\$ 870,000
Less: Unamortized discounts	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 430,000</u>	<u>\$ 920,000</u>	<u>\$ 870,000</u>

The above commercial papers were secured by Mega Bills Finance Corporation, International Bills Finance Corporation and China Bills Finance Corporation.

c. Long-term bank borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
Unsecured loans			
The amount of borrowings for circular use is NT\$500,000 thousand, from May 2018 to May 2021, and interest at 0.936% p.a. as of June 30, 2018	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>

In May 2018, the Corporation entered into a credit facility agreement with KGI Bank for a NT\$500,000 thousand credit line. Under the agreement, based on the Corporation's quarterly reviewed consolidated financial statements and audited annual consolidated financial statements, which shall be verified quarterly the consolidated profit from operations of the Corporation shall not be negative for two consecutive quarters. Otherwise, the credit line shall be cancelled until the quarter profit from operation become positive.

21. OTHER PAYABLES

	June 30, 2018	December 31, 2017	June 30, 2017
Dividends payable	\$ 1,094,871	\$ 4,678	\$ 1,070,748
Royalties (Note 16)	564,739	550,946	563,235
Salaries and incentive bonus	92,624	98,446	61,427
Soil remediation expense	62,863	17,935	10,771
Employees' compensation and remuneration of directors and supervisors	41,061	61,862	33,841
Purchase of equipment	40,834	22,430	106,611
Outsourced repair and construction	18,134	33,380	19,696
Others (freight, commission and insurance)	<u>43,280</u>	<u>40,415</u>	<u>44,565</u>
	<u>\$ 1,958,406</u>	<u>\$ 830,092</u>	<u>\$ 1,910,894</u>

22. RETIREMENT BENEFIT PLANS

Employee benefit expenses in respect of the Corporation and its subsidiaries' defined benefit retirement plans were calculated using the actuarially determined pension cost discount rate as of December 31, 2017 and 2016, the amounts were NT\$2,229 thousand, NT\$2,263 thousand, NT\$4,457 thousand and NT\$4,454 thousand for the three months and six months ended June 30, 2018 and 2017.

23. EQUITY

a. Ordinary share capital

	June 30, 2018	December 31, 2017	June 30, 2017
Number of shares authorized (in thousands)	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
Shares authorized	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>236,904</u>	<u>236,904</u>	<u>236,904</u>
Shares issued	<u>\$ 2,369,044</u>	<u>\$ 2,369,044</u>	<u>\$ 2,369,044</u>

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

b. Capital surplus

	June 30, 2018	December 31, 2017	June 30, 2017
May be used to offset deficits, distribute cash or transfer to share capital (see note below)			
Additional paid-in capital	\$ 218	\$ 218	\$ 218
Treasury share transactions	273,587	230,172	230,172

(Continued)

	June 30, 2018	December 31, 2017	June 30, 2017
May be used to offset deficits only			
Share of change in equity of associates	\$ 1,263	\$ 1,750	\$ 1,727
Treasury share transactions	<u>523,709</u>	<u>523,709</u>	<u>500,860</u>
	<u>\$ 798,777</u>	<u>\$ 755,849</u>	<u>\$ 732,977</u> (Concluded)

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

In 2009, CSC had transferred its treasury shares to its subsidiaries' employees. The Corporation recognized a compensation cost and capital surplus of NT\$161 thousand. In July 2011, CSC issued common shares for cash capital. Under the Company Law, CSC should reserve 10% of the shares for its employees and subsidiaries. The Corporation recognized NT\$57 thousand of compensation cost and capital surplus.

c. Retained earnings and dividend policy

Under the dividend policy, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders.

The Corporation is currently in a growing industry environment and the Corporation intends to take advantage of the economic environment to seek for a sustainable operation. The Corporation's dividend policy is to focus on dividend stability and growth by referring to future operating conditions; also, the Corporation should distribute not less than 50% of distributable earnings, and cash dividend may not be less than 50% of the amount distributed.

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

Under Rule No. 1010012865, Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Corporation should appropriate or reverse a special reserve. For the subsequent decrease in the deduction amount to stockholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriation of earnings for 2017 and 2016 had been approved in the shareholder's meeting in June 2018 and 2017, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividend Per Share	
	For the Year Ended		(NT\$)	
	December 31		For the Year Ended	
	2017	2016	2017	2016
Legal reserve	\$ 115,984	\$ 77,839		
Recognized (reversal) of special reserve	11,390	(91,543)		
Cash dividends	1,018,689	1,066,070	\$ 4.3	\$ 4.5

In addition, the Corporation's board of directors resolved to distribute cash from legal reserve of NT\$71,071 thousand, NT\$0.3 per share, total NT\$4.6 per share.

d. Other equity items

1) Exchange differences on translating foreign operations

	For the Six Months	
	2018	2017
Balance, beginning of period	\$ (62,873)	\$ (972)
Exchange differences arising on translating foreign operations	17,700	(46,440)
Share of exchange difference of associates accounted for using the equity method	699	(2,972)
Balance, end of period	\$ (44,474)	\$ (50,384)

2) Unrealized gains and losses on available-for-sale financial assets

	For the Six Months Ended June 30, 2017
Balance, beginning of period	\$ (75,083)
Unrealized gains and losses on available-for-sale financial assets	1,295
Reclassified to profit or loss on disposal of available-for-sale financial assets	(3,285)
Share of unrealized gains and losses on available-for-sale financial assets of associates accounted for using the equity method	388
Balance, end of period	\$ (76,685)

3) Unrealized gain (loss) on financial assets at FVTOCI

	For the Six Months Ended June 30, 2018
Balance at January 1 (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	(74,316)
Balance at January 1 (IFRS 9)	(74,316)

(Continued)

**For the Six
Months Ended
June 30, 2018**

Recognized during the period	
Unrealized gain and loss - equity instruments	\$ (4,460)
Share from associates accounted for using the equity method	(29,520)
Reclassification adjustment	
Disposal of associates accounted for using the equity method	<u>1,313</u>
Other comprehensive income recognized in the period	(32,667)
Cumulative unrealized gain and loss of equity instruments transferred to retained earnings due to disposal	<u>(526)</u>
 Balance at June 30	 <u>\$ (107,509)</u> (Concluded)

4) The effective portion of gains and losses on hedging instruments in a cash flow hedge

a) Cash flow hedges

**For the Six
Months Ended
June 30, 2017**

Balance, beginning of period	\$ (2,629)
Fair value changes of hedging instruments	(798)
Income tax relating to fair value changes	136
Fair value changes of hedging instruments transferred to adjust carrying amount of hedged items	1,366
Income tax relating to amounts transferred to adjust carrying amount of hedged items	(232)
Share of fair value changes of hedging instruments of associates accounted for using the equity method	<u>(103)</u>
 Balance, end of period	 <u>\$ (2,260)</u>

b) Gain (loss) on hedge instruments

**For the Six
Months Ended
June 30, 2018**

Balance at January 1 (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>(173)</u>
Balance at January 1 (IFRS 9)	(173)
Share of fair value changes of hedging instruments of associates accounted for using the equity method	<u>173</u>
 Balance at June 30	 <u>\$ -</u>

e. Non-controlling interests

	For the Six Months Ended June 30	
	2018	2017
Balance, beginning of period	\$ 351,653	\$ 330,555
Attributable to non-controlling interests:		
Net profit for the period	10,837	21,248
Exchange difference on translating foreign operations	<u>8,615</u>	<u>(18,934)</u>
Balance, end of period	<u>\$ 371,105</u>	<u>\$ 332,869</u>

f. Treasury shares

The Corporation's shares acquired and held by its subsidiaries - EWI for the purpose of investment accounted for as treasury shares were as follows (number of shares in thousands):

For the Six Months Ended June 30, 2018

<u>Beginning of period</u>		<u>Decrease during the period</u>			<u>End of period</u>		
Number of Shares Held	Carrying Amount	Number of Shares Held	Carrying Amount	Selling Price	Number of Shares Held	Carrying Amount	Market Price
5,078	\$ <u>125,656</u>	324	\$ <u>8,018</u>	\$ <u>51,433</u>	4,754	\$ <u>117,638</u>	\$ <u>708,277</u>

For the Six Months Ended June 30, 2017

<u>Beginning of period</u>		<u>Decrease during the period</u>			<u>End of period</u>		
Number of Shares Held	Carrying Amount	Number of Shares Held	Carrying Amount	Selling Price	Number of Shares Held	Carrying Amount	Market Price
5,078	\$ <u>125,656</u>	-	\$ <u>-----</u>	\$ <u>-----</u>	5,078	\$ <u>125,656</u>	\$ <u>591,533</u>

The Corporation's shares held by its subsidiaries are accounted for as treasury shares with all shareholders' rights, except the rights to participate in the Corporation's capital increase in cash and right to vote.

24. OPERATING REVENUES

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Revenue from contracts with customers				
Revenue from the sale of goods	\$ 1,952,677	\$ 1,472,136	\$ 3,916,957	\$ 3,119,366
Revenue from the rendering of services	<u>25,741</u>	<u>16,035</u>	<u>46,242</u>	<u>28,448</u>
	1,978,418	1,488,171	3,963,199	3,147,814
Gain on disposal of investments	7,921	3,285	11,225	3,285
Net gain on fair value change of financial assets classified as held for trading	-	21,400	-	48,703

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Gain on fair value change of financial assets at fair value through profit or loss	\$ 29,453	\$ -	\$ 51,695	\$ -
Share of the profit of associates	2,195	1,587	4,385	1,887
Dividend income	<u>1,450</u>	<u>-</u>	<u>1,450</u>	<u>-</u>
	<u>\$ 2,019,437</u>	<u>\$ 1,514,443</u>	<u>\$ 4,031,954</u>	<u>\$ 3,201,689</u> (Concluded)

a. Contract balances

	June 30, 2018
Notes and accounts receivable (Note 13)	<u>\$ 559,420</u>
Contract liabilities	
Sale of goods	\$ 42,093
Other contract liabilities	<u>1,615</u>
	<u>\$ 43,708</u>

The changes in the contract liability balances primarily result from the timing difference between the Corporations and its subsidiaries' performance and the customer's payment.

Revenue of the reporting period recognized from the beginning contract liability is as follows:

	For the Six Months Ended June 30, 2018
From the beginning contract liability	
Sale of goods	<u>\$ 94,466</u>

b. Disaggregation of revenue

For the six months ended June 30, 2018

	Reportable segments			Total
	Chemicals Segment - Production and Sales	Chemicals Segment - Trading	Investment Segment	
Type of goods or services				
Sale of goods	\$ 3,802,261	\$ 114,696	\$ -	\$ 3,916,957
Rendering of services	46,242	-	-	46,242
Others	<u>-</u>	<u>-</u>	<u>68,755</u>	<u>68,755</u>
	<u>\$ 3,848,503</u>	<u>\$ 114,696</u>	<u>\$ 68,755</u>	<u>\$ 4,031,954</u>

25. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Reversal of accrued expenses	\$ -	\$ -	\$ 30,952	\$ 8,778
Interest income	4,652	3,617	8,249	8,647
Rental income (Note 30)	4,051	4,040	8,105	8,079
Income from sale of scarp	4,106	3,254	8,603	5,950
Dividend income	103	131	1,547	2,446
Others	<u>1,096</u>	<u>2,740</u>	<u>9,979</u>	<u>4,641</u>
	<u>\$ 14,008</u>	<u>\$ 13,782</u>	<u>\$ 67,435</u>	<u>\$ 38,541</u>

b. Other gains and losses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Gain on fair value change of financial assets designated as at FVTPL	\$ -	\$ 24,082	\$ -	\$ 43,031
Gain (loss) on fair value change of financial assets mandatorily at FVTPL	4,024	-	(51,047)	-
Net foreign exchange gain (loss)	19,049	4,327	13,115	(50,423)
Gain (Loss) on disposal of property, plant and equipment	271	4	271	(358)
Others	<u>(156)</u>	<u>(515)</u>	<u>(814)</u>	<u>(639)</u>
	<u>\$ 23,188</u>	<u>\$ 27,898</u>	<u>\$ (38,475)</u>	<u>\$ (8,389)</u>

The components of net foreign exchange gain (loss) were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Foreign exchange gain	\$ 11,092	\$ 2,038	\$ 21,907	\$ 6,545
Foreign exchange loss	<u>7,957</u>	<u>2,289</u>	<u>(8,792)</u>	<u>(56,968)</u>
Net foreign exchange gain (loss)	<u>\$ 19,049</u>	<u>\$ 4,327</u>	<u>\$ 13,115</u>	<u>\$ (50,423)</u>

c. Interest expenses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Interest on bank loans	\$ 4,497	\$ 1,994	\$ 8,497	\$ 3,746
Interest on issuing short-term bills	<u>894</u>	<u>647</u>	<u>1,319</u>	<u>1,420</u>
	5,391	2,641	9,816	5,166
Less: Amounts included in the cost of qualifying assets	<u>5,614</u>	<u>-</u>	<u>5,614</u>	<u>-</u>
	<u>\$ (223)</u>	<u>\$ 2,641</u>	<u>\$ 4,202</u>	<u>\$ 5,166</u>

Information about capitalized interest is as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Capitalized interest	<u>\$ 5,614</u>	<u>\$ -</u>	<u>\$ 5,614</u>	<u>\$ -</u>
Capitalization rate (%)	0.7	-	0.7	-

d. Depreciation and amortization

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Property, plant and equipment	\$ 65,536	\$ 66,266	\$ 133,368	\$ 131,675
Long-term prepayments for lease	<u>2,337</u>	<u>2,113</u>	<u>4,487</u>	<u>4,228</u>
	<u>\$ 67,873</u>	<u>\$ 68,379</u>	<u>\$ 137,855</u>	<u>\$ 135,903</u>
An analysis of depreciation by function				
Operating costs	\$ 60,012	\$ 60,282	\$ 121,988	\$ 119,238
Operating expenses	<u>5,524</u>	<u>5,984</u>	<u>11,380</u>	<u>12,437</u>
	<u>\$ 65,536</u>	<u>\$ 66,266</u>	<u>\$ 133,368</u>	<u>\$ 131,675</u>
An analysis of amortization by function				
Operating costs	<u>\$ 2,337</u>	<u>\$ 2,113</u>	<u>\$ 4,487</u>	<u>\$ 4,228</u>

e. Employee benefits expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Short-term employee benefits				
Salaries	\$ 117,904	\$ 98,021	\$ 223,734	\$ 193,619
Labor and health insurance	4,610	5,114	9,638	9,926

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Others	\$ 3,505	\$ 2,814	\$ 7,335	\$ 6,058
	<u>126,019</u>	<u>105,949</u>	<u>240,707</u>	<u>209,603</u>
Post-employment benefits				
Defined contribution plans	1,550	1,498	3,149	2,982
Defined benefit plans (Note 22)	<u>2,229</u>	<u>2,263</u>	<u>4,457</u>	<u>4,454</u>
	<u>3,779</u>	<u>3,761</u>	<u>7,606</u>	<u>7,436</u>
	<u>\$ 129,798</u>	<u>\$ 109,710</u>	<u>\$ 248,313</u>	<u>\$ 217,039</u>
An analysis by function				
Operating costs	\$ 73,499	\$ 57,821	\$ 149,440	\$ 135,659
Operating expenses	<u>56,299</u>	<u>51,889</u>	<u>98,873</u>	<u>81,380</u>
	<u>\$ 129,798</u>	<u>\$ 109,710</u>	<u>\$ 248,313</u>	<u>\$ 217,039</u>

(Concluded)

f. Employees' compensation and remuneration of directors and supervisors

The Articles of Incorporation of the Corporation stipulated the Corporation to distribute employees' compensation and remuneration of directors and supervisors at the rates no less than 0.1% and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors.

The employees' compensation and remuneration of directors and supervisors for the three and six months ended June 30, 2018 and 2017, were as follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Employees' compensation	\$ 18,320	\$ 16,789	\$ 34,289	\$ 30,224
Remuneration of directors and supervisors	<u>\$ 3,664</u>	<u>\$ 3,863</u>	<u>\$ 6,858</u>	<u>\$ 6,550</u>

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

The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Corporation's board of directors in March 2018 and 2017, respectively, were as follows:

	For the Year Ended December 31	
	2017	2016
Employees' compensation	\$ 51,623	\$ 50,968
Remuneration of directors and supervisors	10,325	10,193

The appropriations of employees' compensation and remuneration of directors and supervisors for 2017 and 2016 having been resolved by the board of directors in March 2018 and 2017 and consolidated financial statements for 2017 and 2016 as follows:

	For the Year Ended December 31, 2017		For the Year Ended December 31, 2016	
	Employees' Compensation	Remuneration of Directors and Supervisors	Employees' Compensation	Remuneration of Directors and Supervisors
The board of directors approved amounts	<u>\$ 51,623</u>	<u>\$ 10,325</u>	<u>\$ 50,968</u>	<u>\$ 10,193</u>
Consolidated financial statements amounts	<u>\$ 51,552</u>	<u>\$ 10,310</u>	<u>\$ 48,941</u>	<u>\$ 9,788</u>

Above mentioned are adjusting profit and loss for the six months ended June 30, 2018 and 2017.

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

26. INCOME TAX

a. Income tax recognized in profit or loss

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Current tax				
In respect of the current period	\$ 81,282	\$ 35,362	\$ 163,983	\$ 71,296
Adjustments for prior periods	12,245	(7,549)	12,245	(7,549)
Adjustments under the Alternative Minimum Tax Act	4,082	-	4,082	-
Income tax on unappropriated earnings	<u>186</u>	<u>-</u>	<u>186</u>	<u>-</u>
	<u>97,795</u>	<u>27,813</u>	<u>180,496</u>	<u>63,747</u>
Deferred tax				
In respect of the current period	(13,513)	3,212	(9,869)	11,939
Adjustments for prior periods	6,193	-	6,193	-
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>-</u>	<u>(4,330)</u>	<u>-</u>
	<u>(7,320)</u>	<u>3,212</u>	<u>(8,006)</u>	<u>11,939</u>
	<u>\$ 90,475</u>	<u>\$ 31,025</u>	<u>\$ 172,490</u>	<u>\$ 75,686</u>

It was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax assessments

The Corporation's income tax returns through 2016 and the subsidiary EWI income tax returns through 2016 have been assessed by the tax authorities.

27. EARNINGS PER SHARE

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

Net profit for the period

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Net profit attributable to owners of the Corporation	<u>\$ 377,586</u>	<u>\$ 268,869</u>	<u>\$ 702,532</u>	<u>\$ 532,370</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Weighted average number of ordinary shares outstanding	236,904	236,904	236,904	236,904
Less: Number of treasury shares acquired by subsidiaries	<u>4,822</u>	<u>5,078</u>	<u>4,940</u>	<u>5,078</u>
Weighted average number of ordinary shares used in computation of basic earnings per share	232,082	231,826	231,964	231,826
Plus: Effect of dilutive potential ordinary shares - employees' compensation	<u>123</u>	<u>242</u>	<u>368</u>	<u>422</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>232,205</u>	<u>232,068</u>	<u>232,332</u>	<u>232,248</u>

Since the Corporation is allowed to settle compensation paid to employees by cash or shares, the Corporation assumed that the entire amount of the compensation will be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

28. CAPITAL MANAGEMENT

The capital management of the Corporation and its subsidiaries is aimed at ensuring effective use of capital and ensuring a smooth operation and ensuring optimized debt and equity balance. The overall strategy of the Corporation and its subsidiaries has not significantly changed for the six months ended June 30, 2018. The capital structure of the Corporation and its subsidiaries consist of net liabilities and equity without any need for complying with other external capital requirements, except for Note 20. The Corporation and its subsidiaries review capital structure on a quarterly basis, including the consideration of capital costs and related risks. Currently, the equity in the capital structure is greater than liabilities and it will be used to pay for dividends or debts; also, the Corporation and its subsidiaries have invested in financial instruments as part of capital and fund management.

29. FINANCIAL INSTRUMENTS

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

Financial assets that have material difference between carrying amount and fair value.

	<u>December 31, 2017</u>		<u>June 30, 2017</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Held-to-maturity financial assets	<u>\$ 102,360</u>	<u>\$ 81,292</u>	<u>\$ 104,630</u>	<u>\$ 85,353</u>

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

1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>June 30, 2018</u>				
Financial assets measured at fair value through profit or loss				
Mutual funds	\$ 1,466,377	\$ -	\$ -	\$ 1,466,377
Domestic quoted shares	564,289	-	-	564,289
Foreign quoted shares	22,307	-	-	22,307
Emerging market shares	-	-	17,155	17,155
Domestic unquoted shares	<u>-</u>	<u>-</u>	<u>56,020</u>	<u>56,020</u>
	<u>\$ 2,052,973</u>	<u>\$ -</u>	<u>\$ 73,175</u>	<u>\$ 2,126,148</u>
Financial assets at FVTOCI				
Domestic quoted shares	<u>\$ 170,459</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,459</u>
<u>December 31, 2017</u>				
Financial assets measured at fair value through profit or loss				
Mutual funds	\$ 1,605,864	\$ -	\$ -	\$ 1,605,864
Domestic quoted shares	562,508	-	-	562,508
Foreign quoted shares	<u>40,898</u>	<u>-</u>	<u>-</u>	<u>40,898</u>
	<u>\$ 2,209,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,209,270</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Domestic quoted shares	\$ 154,945	\$ -	\$ -	\$ 154,945
Emerging market shares	-	-	16,327	16,327
Domestic unquoted shares	<u>-</u>	<u>-</u>	<u>56,321</u>	<u>56,321</u>
	<u>\$ 154,945</u>	<u>\$ -</u>	<u>\$ 72,648</u>	<u>\$ 227,593</u>
<u>June 30, 2017</u>				
Financial assets measured at fair value through profit or loss				
Mutual funds	\$ 1,414,456	\$ -	\$ -	\$ 1,414,456
Domestic quoted shares	507,094	-	-	507,094
Foreign quoted shares	<u>33,977</u>	<u>-</u>	<u>-</u>	<u>33,977</u>
	<u>\$ 1,955,527</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,955,527</u>
Available-for-sale financial assets				
Domestic quoted shares	\$ 181,115	\$ -	\$ -	\$ 181,115
Emerging market shares	-	-	19,730	19,730
Domestic unquoted shares	<u>-</u>	<u>-</u>	<u>59,242</u>	<u>59,242</u>
	<u>\$ 181,115</u>	<u>\$ -</u>	<u>\$ 78,972</u>	<u>\$ 260,087</u>
				(Concluded)

There were no transfers between Level 1 and Level 2 for the six months ended June 30, 2018 and 2017.

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

	Financial Assets at Fair Value Through Profit or loss For the Six Months Ended June 30, 2018
Balance at January 1 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	<u>72,648</u>
Balance at January 1 per IFRS 9	72,648
Recognized in profit or loss	1,910
Purchases	217
Capital reduction	<u>(1,600)</u>
Balance, end of period	<u>\$ 73,175</u>

**Available-for-Sale
Financial Asset
For the Six Months
Ended June 30, 2017**

Balance, beginning of period	\$ 77,678
Recognized in other comprehensive income	<u>1,294</u>
Balance, end of period	<u>\$ 78,972</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

a) The fair value of emerging market shares was based on the closing price adjusted for liquidity risk premium or the external expert accreditation report.

b) The fair value of unquoted stocks was based on the current net value or trading price.

c. Categories of financial instruments

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets			
Measured at fair value through profit or loss			
Designated as at fair value through profit or loss	\$ -	\$ 1,497,762	\$ 1,339,487
Mandatorily at FVTPL (including noncurrent)	2,126,148	-	-
Held for trading	-	711,508	616,040
Available-for-sale financial assets (including noncurrent)	-	227,593	260,087
Financial assets at FVTOCI - Equity instruments	170,459	-	-
Held-to-maturity investments	-	102,360	104,630
Loans and receivables 1)	-	1,713,882	1,664,280
Financial assets at amortized cost 2)	1,924,989	-	-
Financial liabilities			
Measured at amortized cost 3)	4,815,238	4,008,752	3,763,820

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other financial assets (including noncurrent), debts investments with no active market, notes and accounts receivable (including related parties), other receivables and refundable deposits.

2) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other financial assets (including noncurrent), financial assets at amortized cost - noncurrent, notes and accounts receivable (including related parties), other receivables and refundable deposits.

- 3) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term bills payable, accounts payable (including related parties), other payables and long-term borrowings.

d. Financial risk management objectives and policies

The Corporation and its subsidiaries' major financial instruments include equity and debt investments, accounts receivable, accounts payable, short-term borrowings, long-term borrowings and short-term bills payable. The Corporation and its subsidiaries' Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Corporation and its subsidiaries through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Corporation and its subsidiaries sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Corporation and its subsidiaries' policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Corporation and its subsidiaries did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Corporation and its subsidiaries' activities exposed them primarily to the financial risks of changes in foreign currency risks and interest rates. There had been no change to the Corporation and its subsidiaries' exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Corporation and its subsidiaries had sales in foreign currencies, which were exposed to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts or were mitigated by future receivables and payables denominated in the same foreign currency.

The carrying amounts of the Corporation and its subsidiaries' foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are set out in Note 32.

Sensitivity analysis

The Corporation and its subsidiaries were mainly exposed to the currencies USD and RMB. The following table details the Corporation and its subsidiaries' sensitivity to a 3% increase and decrease in the functional currency against the relevant foreign currencies. The sensitivity rate of 3% represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only the outstanding foreign monetary items at each balance sheet date. Scenario 1 in the following table indicates the profit and loss of the Corporation and its subsidiaries when the functional currency against the USD or RMB appreciated by 3%. Scenario 2 in the following table indicates the profit and loss of the Corporation and its subsidiaries when the functional currency against the USD or RMB depreciated by 3%.

	USD (Note)		RMB (Note)	
	For the Six Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Profit or loss in Scenario 1	\$ (12,705)	\$ (9,060)	\$ (6,322)	\$ (4,549)
Profit or loss in Scenario 2	12,705	9,060	6,322	4,549

Note: It was mainly derived from the cash and cash equivalents, receivables, payables, and other payables denominated in foreign currency without cash flow hedging arranged at each balance sheet date by the Corporation and its subsidiaries.

Changes in the exchange rate sensitivity of the Corporation and its subsidiaries for the six months ended June 30, 2018 mainly due to the increase of USD assets and RMB assets. The management believes that the sensitivity analysis is not representative of the inherent risk of exchange rate since the foreign currency risk exposure at balance sheet date does not reflect the interim risk exposure; also, the sales denominated in USD will be affected by customer orders and shipping schedules; furthermore, the RMB exchange rate will vary depending on the assets investment position.

b) Interest rate risk

The loans of the Corporation and its subsidiaries mainly consist of less than twelve months short-term loans and up to six - month drawdown of long-term loans with revolving credits, based on the NTD market interest rates; therefore, the interest rate sensitivity was low. Therefore, interest rate risk was immaterial to the Corporation and its subsidiaries.

The carrying amounts of the Corporation and its subsidiaries' financial assets and financial liabilities with exposure to interest rates at the balance sheet date were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Cash flow interest rate risk			
Financial assets	\$ 410,199	\$ 422,067	\$ 408,151
Financial liabilities	100,000	-	25,871

c) Other price risk

The Corporation and its subsidiaries are exposed to equity price risk through their investments in quoted shares, mutual funds, and emerging shares; the risk is managed by maintaining a portfolio of investments with different risks. The equity price risk of the Corporation and its subsidiaries was primarily concentrated on the share and fund market in Taiwan and it was evaluated by the closing price of the equity securities and net value of the mutual funds on a monthly basis.

Sensitivity analysis

The sensitivity analysis measures the exposure to equity price risk at the balance sheet date. Considering the market price fluctuation of the Corporation's main investment targets, the fluctuation of 6% was used for the sensitivity analysis of equity securities.

If equity prices had been 6% higher/lower for the six months ended June 30, 2018 and 2017, respectively, the pre-tax profit for the six months ended June 30, 2018 and 2017 would have been higher/lower by NT\$127,569 thousand and NT\$117,332 thousand, respectively, as a result of the fair value changes of financial assets at fair value through profit or loss, and the pre-tax other comprehensive income for the six months ended June 30, 2018 would have been higher/lower by NT\$10,228 thousand, as a result of the changes in fair value of financial assets at fair value through other comprehensive income, and the other comprehensive income for the six months ended June 30, 2017 would have been higher/lower by NT\$10,867 thousand as a result of the changes in fair value of available-for-sale financial assets.

2) Credit risk

Credit risk refers to the risk that counterparty will default resulting in financial loss to the Corporation and its subsidiaries. As at the balance sheet date, the Corporation and its subsidiaries' maximum exposure to credit risk is the carrying amount of accounts receivables on the consolidated balance sheets. The main customers of the Corporation and its subsidiaries were creditworthy. Annual credit investigation of the credit status of the customers is conducted and a credit report is issued. The business unit uses the credit report as basis for the rating of the customers and the credit line granted. In addition, the credit rating and customer credit status are compiled in a weekly report for use as reference of the business department. If necessary, the customers will be requested to provide collaterals or to pay cash for each transaction. The business department also understands the credit status of customers through external credit investigation and industry reports. The credit risk was immaterial to Corporation and its subsidiaries.

The Corporation and its subsidiaries' concentrations of credit risk in total of notes and accounts receivable were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Customer A	\$ 100,860	\$ 91,644	\$ 90,770
Customer B	51,079	42,155	57,417
Customer C	<u>44,343</u>	<u>76,954</u>	<u>32,120</u>
	<u>\$ 196,282</u>	<u>\$ 210,753</u>	<u>\$ 180,307</u>

3) Liquidity risk

The Corporation and its subsidiaries have supported business operation through management and by maintaining sufficient cash and cash equivalents or easily realizable financial instruments. In addition, the Corporation and its subsidiaries signed line of credit contracts with financial institutions for a ready source of funds to support the business operation of the Corporation and its subsidiaries.

The equity of the Corporation and its subsidiaries is far greater than its liabilities; also, the bank credit lines have available unused amount; therefore, there is no liquidity risk.

The Corporation and its subsidiaries rely on bank borrowings as a significant source of liquidity. As of June 30, 2018, December 31, 2017 and June 30, 2017, the Corporation and its subsidiaries had available unutilized short-term and long-term bank loan facilities in the amounts of NT\$6.7 billion, NT\$3.5 billion and NT\$4.9 billion, respectively.

30. TRANSACTIONS WITH RELATED PARTIES

<u>Related Party Name</u>	<u>Relationship with the Corporation</u>
China Steel Corporation (CSC)	The parent entity of the Corporation
China Synthetic Rubber Corporation (CSRC)	The key management of the Corporation
CTCI Corporation	Supervisors of the Corporation
Kai-Chieh Chia	Supervisors of the Corporation
Che-Sheng Chen	Supervisors of the Corporation
China Steel Structure Corporation (CSSC)	Fellow subsidiaries
Dragon Steel Corporation (DSC)	Fellow subsidiaries
Chung Hung Steel Corporation	Fellow subsidiaries
China Steel Machinery Corporation	Fellow subsidiaries
CHC Resources Corporation	Fellow subsidiaries
Himag Magnetic Corporation	Fellow subsidiaries
Gau Ruel Investment Corporation	Fellow subsidiaries
China Steel Global Trading Corporation	Fellow subsidiaries
Steel Castle Technology Corporation	Fellow subsidiaries
Hung Li Steel Corporation	Fellow subsidiaries
Union Steel Development Corp.	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
United Steel Engineering & Construction Corp.	Fellow subsidiaries
China Steel Precision Materials Corporation (CSPM)	Fellow subsidiaries
China Ecotek Corporation	Fellow subsidiaries
Formosa Ha Tinh (Cayman) Limited (Formosa Ha Tinh (Cayman))	Other related parties
Formosa Ha Tinh Steel Corporation (Formosa Ha Tinh)	Other related parties

Details of transactions between the Corporation and its subsidiaries and related parties were as follows:

a. Operating revenues

Account Item	Related Parties Types/Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
		2018	2017	2018	2017
Revenue from sales of goods	The key management of the Corporation				
	CSRC	\$ 302,317	\$ 240,615	\$ 566,306	\$ 506,534
	Parent entity	3,721	3,214	6,825	7,850
	Fellow subsidiaries	<u>1,040</u>	<u>3,009</u>	<u>3,985</u>	<u>6,407</u>
		<u>\$ 307,078</u>	<u>\$ 246,838</u>	<u>\$ 577,116</u>	<u>\$ 520,791</u>
Revenue from the rendering of services	Parent entity	<u>\$ 25,626</u>	<u>\$ 15,949</u>	<u>\$ 46,011</u>	<u>\$ 28,362</u>

Part of sales to the parent entity and fellow subsidiaries were charged at the cost plus additional percentage; sales to others were charged in accordance with the agreed pricing formula. Sales referred to above except for revenue from rendering of services from the parent entity, did not have similar transactions for comparison; but not significantly different from regular trading.

b. Purchase of goods

Related Parties Types/Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Parent entity				
CSC	<u>\$ 653,278</u>	<u>\$ 456,126</u>	<u>\$ 1,247,699</u>	<u>\$ 1,035,716</u>
Fellow subsidiaries				
DSC	223,591	197,209	472,794	486,980
Others	<u>349</u>	<u>709</u>	<u>708</u>	<u>1,219</u>
	<u>223,940</u>	<u>197,918</u>	<u>473,502</u>	<u>488,199</u>
Other related parties				
Formosa Ha Tinh	<u>228,866</u>	<u>92,546</u>	<u>415,393</u>	<u>220,525</u>
	<u>\$ 1,106,084</u>	<u>\$ 746,590</u>	<u>\$ 2,136,594</u>	<u>\$ 1,744,440</u>

The Corporation and its parent entity had purchase contracts for light oil products and coal tar signed in March 2013 and July 2010 for a period of 5 years, respectively. In addition, the Corporation and DSC had a purchase contract for light oil products and coal tar signed in May 2008 for a period of 5 years; also, the contracts would be extended automatically for 5 years each time upon maturity if there was no objection raised by either party. The purchase price was based on the contracts agreed by the counter parties. The purchases referred to above were paid with an issued letter of credit at sight; also, any price adjustment according to market price would be settled separately.

In addition, the Corporation signed a contract with the parent entity in January 2008 for fine coke processing for a 5-year period; the contract would be extended automatically for 5 years each time upon maturity if there was no objection raised by either party.

A subsidiary signed a purchase contract with Formosa Ha Tinh in May 2016 for light oil products and coal tar for a 15-year period; the contract will be extended subject to the mutual agreement upon its expiration. The purchase price was based on the contract agreed by the counter parties. The purchases referred to in this paragraph were paid with a telegraphic transfer and an issued letter of credit at sight; also, any price adjustment according to the market price will be settled separately.

c. Receivables from related parties

Account Items	Related Parties Types/Name	June 30, 2018	December 31, 2017	June 30, 2017
Accounts receivable - related parties	Parent entity	\$ 10,837	\$ 8,748	\$ 5,617
	Fellow subsidiaries	583	3,297	2,081
	The key management of the Corporation			
	CSRC	<u>100,860</u>	<u>91,644</u>	<u>90,770</u>
		<u>\$ 112,280</u>	<u>\$ 103,689</u>	<u>\$ 98,468</u>
Other receivables	Parent entity			
	CSC	\$ 110,827	\$ 84,162	\$ 163,656
	Fellow subsidiaries	41,368	740	51,448
	Other related parties			
	Formosa Ha Tinh (Caymen)	213,220	208,320	212,940
Others	<u>234</u>	<u>41</u>	<u>1,808</u>	
		<u>\$ 365,649</u>	<u>\$ 293,263</u>	<u>\$ 429,852</u>

No guarantee had been received for receivables from related parties. For the six months ended June 30, 2018 and 2017, no impairment loss was recognized on receivables from related parties.

d. Payables to related parties

Account Items	Related Parties Types/Name	June 30, 2018	December 31, 2017	June 30, 2017
Accounts payable - related parties	Parent entity			
	CSC	\$ 223,936	\$ 228,663	\$ 209,164
	Fellow subsidiaries	122	148	331
	Others	<u>5,612</u>	<u>-</u>	<u>-</u>
		<u>\$ 229,670</u>	<u>\$ 228,811</u>	<u>\$ 209,495</u>
Other payables	Parent entity	\$ 14,438	\$ 14,084	\$ 2,825
	Fellow subsidiaries	416	402	54,736
	The Key management of the Corporation	1,369	2,062	1,128
	Supervisors of the Corporation	2,053	3,093	1,692
	Other related parties			
	Formosa Ha Tihn	<u>563,905</u>	<u>550,946</u>	<u>563,236</u>
		<u>\$ 582,181</u>	<u>\$ 570,587</u>	<u>\$ 623,617</u>

The outstanding accounts payable to related parties were unsecured.

e. Acquisitions of property, plant and equipment

Related Parties Types/Name	Purchase Price	
	For the Six Months Ended June 30	
	2018	2017
Parent entity	<u>\$ 38,573</u>	<u>\$ 9,500</u>
Fellow subsidiaries		
CSSC	21,169	103,026
Others	<u>5,416</u>	<u>58,268</u>
	<u>26,585</u>	<u>161,294</u>
	<u>\$ 65,158</u>	<u>\$ 170,794</u>

f. Long-term prepayments for lease

Related Parties Types/Name	June 30, 2018	December 31, 2017	June 30, 2017
Fellow subsidiaries			
CSPM	<u>\$ 27,072</u>	<u>\$ 26,659</u>	<u>\$ 27,017</u>

A subsidiary prepaid plant rent to CSPM for a contract period of 45 years (ending in January 2059) and rented the land from CSPM (ending in January 2034). The rent amounted to NT\$979 thousand, NT\$925 thousand, NT\$1,945 thousand and NT\$1,874 thousand for the three and six months ended June 30, 2018 and 2017, respectively.

g. Other related party transactions

1) Leased land and factories

The Corporation leased the current factory land from the parent entity under three contracts. The annual rent amount was calculated according to 3% of the announced total present value or 6% of the announced total land value. The three contracts were signed for periods of 5 years (ending in December 2020), 5 years (ending in December 2020), and 10 years (ending in June 2019). Rent was paid once every six months; the rent expense was NT\$4,493 thousand, NT\$4,088 thousand, NT\$8,987 thousand and NT\$8,177 thousand for the three months and six months ended June 30, 2018 and 2017, respectively.

The Corporation leased the coke plant from the parent entity for a period ended December 2020 with the rental paid once every six months; the rent expense was NT\$187 thousand NT\$555 thousand, NT\$375 thousand and NT\$1,111 thousand for the three months and six months ended June 30, 2018 and 2017, respectively.

The Corporation and fellow subsidiaries had signed a land and warehouse lease contract for a period to August 2018; the rent expense was NT\$747 thousand, NT\$584 thousand, NT\$1,168 thousand and NT\$1,005 thousand for the three months and six months ended June 30, 2018 and 2017, respectively.

The Corporation and other non-related parties had no similar transactions available for comparison.

2) Leased office building

The Corporation had leased office buildings and office from the parent entity for a period up to October 2019 and March 2017, respectively; the lease of office already expired and no longer renewed. The rent expense was NT\$1,559 thousand, NT\$1,550 thousand, NT\$3,118 thousand and NT\$3,182 thousand for the three months and six months ended June 30, 2018 and 2017, respectively. The rent mentioned above was based on the negotiation between two parties, and the payments follow the terms of the contract. There was no significant difference in the rent and in the terms between the above mentioned contract and the contracts signed with unrelated parties.

3) Rent Revenue

As described in Note 19 the Corporation and the parent entity had signed a land lease contract (located in Siaogang District, Kaohsiung City) with the rent advanced every six months and for a period up to December 2020. The rent revenue (accounted for non-operating income - other income) was NT\$3,079 thousand, NT\$3,079 thousand, NT\$6,158 thousand and NT\$6,158 thousand for the three months and six months ended June 30, 2018 and 2017, respectively.

4) Public fluid and reservoir

The Corporation's factory located inside the parent entity's plant; the primary energy needed for production was supplied by the parent entity. The Corporation paid the parent entity on a monthly basis expense for public fluid and reservoir, including electricity, wastewater treatment, waste gas treatment, consumption of steam, and coke ovens, in accordance with the market price or cost plus percentage. The expense mentioned above amounted to NT\$112,228 thousand, NT\$90,784 thousand, NT\$208,957 thousand and NT\$178,575 thousand for the three months and six months ended June 30, 2018 and 2017, respectively. The Corporation and other non-related parties had no similar transactions available for comparison.

5) Technical service fees

The Corporation commissioned the parent entity to provide technical services, including Isotropic graphite block material analysis, Ultra capacitor activated carbon electrode development, the assessment of soft asphalt applied to fuel. The fees for technical services amounted to NT\$5,000 thousand, NT\$5,366 thousand, NT\$5,000 thousand and NT\$5,417 thousand for the three months and six months ended June 30, 2018 and 2017, respectively.

6) Remuneration of directors and supervisors

Related parties Types/Name	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Parent entity	\$ 1,825	\$ 1,481	\$ 3,422	\$ 2,825
The Key Management of the Corporation	733	591	1,372	1,128
Other related parties as supervisors of the Corporation	<u>1,099</u>	<u>886</u>	<u>2,057</u>	<u>1,692</u>
	<u>\$ 3,657</u>	<u>\$ 2,958</u>	<u>\$ 6,851</u>	<u>\$ 5,645</u>

h. Compensation of key management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 9,121	\$ 13,456	\$ 19,514	\$ 22,693
Post-employment benefits	<u>240</u>	<u>436</u>	<u>481</u>	<u>482</u>
	<u>\$ 9,361</u>	<u>\$ 13,892</u>	<u>\$ 19,995</u>	<u>\$ 23,175</u>

The compensation of the directors and the other management was determined by the Remuneration Committee in accordance with the personal performance evaluation and market trends.

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

The Corporation and its subsidiaries' significant commitments and contingencies as of June 30, 2018 were as follow:

- a. Unused balance of the letter of credit issued by the Corporation for the purchase of raw materials and merchandises in the amount of NT\$769,841 thousand.
- b. Property, plant and equipment construction contract signed for total amount of NT\$1,079,164 thousand, with the construction contracts amounted to NT\$247,680 thousand but not yet completed.

32. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Corporation and its subsidiaries and the exchange rate between foreign currencies and respective functional currencies were disclosed.

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount
<u>June 30, 2018</u>				
Monetary financial assets				
USD	\$ 22,489	30.46	(USD:NTD)	\$ 685,025
RMB	36,389	4.593	(RMB:NTD)	167,134
RMB	9,490	0.1508	(RMB:USD)	43,589
Non-monetary financial assets				
Designated as at fair value through profit or loss				
USD	28,013	30.46	(USD:NTD)	853,291
JPY	81,000	0.009	(JPY:USD)	22,307
RMB	10,008	4.593	(RMB:NTD)	45,965
Monetary financial liabilities				
USD	8,586	30.46	(USD:NTD)	261,540
<u>December 31, 2017</u>				
Monetary financial assets				
USD	24,319	29.76	(USD:NTD)	723,730
RMB	28,793	4.565	(RMB:NTD)	131,442
RMB	9,345	0.1534	(RMB:USD)	42,658
Non-monetary financial assets				
Designated as at fair value through profit or loss				
USD	35,054	29.76	(USD:NTD)	1,043,199
NTD	5,970	0.0336	(NTD:USD)	5,970
RMB	10,543	4.565	(RMB:NTD)	48,131
JPY	154,800	0.0089	(JPY:USD)	40,898
Monetary financial liabilities				
USD	9,156	29.76	(USD:NTD)	272,474
RMB	1,267	4.565	(RMB:NTD)	5,786
<u>June 30, 2017</u>				
Monetary financial assets				
USD	17,834	30.42	(USD:NTD)	542,512
USD	14	6.778	(USD:RMB)	422
RMB	24,455	4.486	(RMB:NTD)	109,704
RMB	9,348	0.1475	(RMB:USD)	41,937

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount
Non-monetary financial assets				
Designated as at fair value through profit or loss				
USD	\$ 31,418	30.42	(USD:NTD)	\$ 955,739
JPY	99,495	0.2716	(JPY:NTD)	27,023
Monetary financial liabilities				
USD	7,920	30.42	(USD:NTD)	240,939 (Concluded)

For the six months ended June 30, 2018 and 2017, realized and unrealized net foreign exchange gains losses were gains NT\$13,115 thousand and losses NT\$50,423 thousand. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of the foreign currency transaction and functional currencies of the Corporation and its subsidiaries.

33. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Reported segments of the Corporation and its subsidiaries were as follows:

- a. CSCC/CCSNM - Production and marketing of chemical products.
- b. EGI/CSCCC - Trade of chemical products.
- c. EWI/CSCM - Investments.
- d. The Corporation and its subsidiaries have the reporting segments analyzed as follows:

	CSCC/CCSNM	EGI/CSCCC	EWI/CSCM	Adjustment and Write-off	Consolidated
<u>For the six months ended June 30, 2018</u>					
Revenues from external customers	\$ 3,848,503	\$ 114,696	\$ 68,755	\$ -	\$ 4,031,954
Inter segment revenues	<u>162,308</u>	<u>330,431</u>	<u>9,678</u>	<u>(502,417)</u>	<u>-</u>
Segment revenues	<u>\$ 4,010,811</u>	<u>\$ 445,127</u>	<u>\$ 78,433</u>	<u>\$ (502,417)</u>	<u>\$ 4,031,954</u>
Segment income	\$ 738,327	\$ 25,766	\$ 77,909	\$ (1,210)	\$ 840,792
Interest income	4,663	1,492	2,094	-	8,249
Share of profits of associates	81,937	-	9,677	(71,305)	20,309
Other income	64,049	1,547	2,059	(8,469)	59,186
Interest expense	(4,142)	-	(60)	-	(4,202)
Other gains and losses	<u>(4,950)</u>	<u>(34,061)</u>	<u>536</u>	<u>-</u>	<u>(38,475)</u>
Profit (loss) before income tax	879,884	(5,256)	92,215	(80,984)	885,859
Income tax expense	<u>167,674</u>	<u>-</u>	<u>4,816</u>	<u>-</u>	<u>172,490</u>
Net profit (loss) for the period	<u>\$ 712,210</u>	<u>\$ (5,256)</u>	<u>\$ 87,399</u>	<u>\$ (80,984)</u>	<u>\$ 713,369</u>
<u>For the six months ended June 30, 2017</u>					
Revenues from external customers	\$ 2,963,920	\$ 183,894	\$ 53,875	\$ -	\$ 3,201,689
Inter segment revenues	<u>94,167</u>	<u>112,773</u>	<u>(6,770)</u>	<u>(200,170)</u>	<u>-</u>
Segment revenues	<u>\$ 3,058,087</u>	<u>\$ 296,667</u>	<u>\$ 47,105</u>	<u>\$ (200,170)</u>	<u>\$ 3,201,689</u>

(Continued)

	CSCC/CCSNM	EGI/CSCCC	EWI/CSCM	Adjustment and Write-off	Consolidated
Segment income	\$ 487,405	\$ 40,340	\$ 39,828	\$ 19,187	\$ 586,760
Interest income	4,346	1,896	2,618	(213)	8,647
Share of profits of associates	126,629	-	-	(109,071)	17,558
Other income	22,615	11,347	1,578	(5,646)	29,894
Interest expense	(5,218)	(124)	(37)	213	(5,166)
Other gains and losses	<u>(36,103)</u>	<u>28,893</u>	<u>(1,179)</u>	<u>-</u>	<u>(8,389)</u>
Profit before income tax	599,674	82,352	42,808	(95,530)	629,304
Income tax expense	<u>74,074</u>	<u>-</u>	<u>1,612</u>	<u>-</u>	<u>75,686</u>
Net profit for the period	<u>\$ 525,600</u>	<u>\$ 82,352</u>	<u>\$ 41,196</u>	<u>\$ (95,530)</u>	<u>\$ 553,618</u>

(Concluded)

Segment income refers to the profits earned by each segment, excluding the administrative cost of the headquarter to be amortized and remuneration of directors and supervisors, rent revenue, interest income, gain and loss on disposal of property, plant, and equipment, gain on disposal of investments, net foreign currency exchange gains and losses, financial instruments valuation gains and losses, interest expense, income tax expense, etc. These measurements and amount are provided to the chief operating decision-maker for allocating resources to each segment and for assessing their performance.

For the purpose of monitoring segment performance and allocating resources to each segment:

- 1) All assets, except investments in associates under equity method, other financial assets, and current and deferred income tax assets, are allocated to the reporting segments. The common assets of the reporting segments are allocated proportionally based on income generated by each reporting segment.
- 2) All liabilities, except loans and deferred income tax liabilities, are allocated to the reporting segments. The common liabilities of the reporting segments are allocated proportionally based on the assets of each reporting segment.

e. Segment total assets and liabilities

	June 30, 2018	December 31, 2017	June 30, 2017
<u>Segment assets</u>			
Chemicals segment			
Production and sales	\$ 8,407,939	\$ 8,004,551	\$ 7,195,234
Trading	1,424,678	1,458,234	1,435,254
Investment segment	<u>1,903,660</u>	<u>1,772,752</u>	<u>1,655,673</u>
	<u>\$ 11,736,277</u>	<u>\$ 11,235,537</u>	<u>\$ 10,286,161</u>
<u>Segment liabilities</u>			
Chemicals segment			
Production and sales	\$ 4,639,217	\$ 3,737,426	\$ 3,414,154
Trading	569,965	574,464	542,539
Investment segment	<u>4,951</u>	<u>50,457</u>	<u>80,839</u>
	<u>\$ 5,214,133</u>	<u>\$ 4,362,347</u>	<u>\$ 4,037,532</u>