

**China Steel Chemical Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
China Steel Chemical Corporation

Opinion

We have audited the accompanying consolidated financial statements of China Steel Chemical Corporation (the "Corporation") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the 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 Financial Supervisory Commission (FSC) of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Corporation and its subsidiaries in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As disclosed in Note 3 to the consolidated financial statements, the Corporation and its subsidiaries have applied 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. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter of the Corporation and its subsidiaries' consolidated financial statements for the year ended December 31, 2018 is stated as follow:

Revenue recognition

The Corporation and its subsidiaries' main operating revenue of export sales amounted to NT\$1,301,578 thousand, representing 15% of the operating revenues, and its contribution to the gross profit is significant. The Corporation and its subsidiaries' export transaction procedure is complicated, and the management is under pressure to achieve the expected target and market expectations, which may be achieved by manipulating the operating revenue. We are concerned whether the sales revenue of the Corporation and its subsidiaries actually occurred; as a result, we considered operating revenue of export sales as a key audit matter.

Refer to Notes 4 and 24 to the consolidated financial statements for the accounting policies and the related disclosures of revenue.

The audit procedures we performed included the following:

1. We understood, performed and tested the effectiveness of the design and implementation of internal control of sales.
2. We verified the related documents to confirm that the products were actually transferred and fulfilled the obligation.
3. We performed the accounts receivable confirmation and verified the collection to make sure that the amount of sales revenue can be measured reliably.

Other Matter

We have also audited the standalone financial statements of China Steel Chemical Corporation as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with emphasis of matter paragraph and an unmodified opinion, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the 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 Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the supervisor, are responsible for overseeing the Corporation and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation and its subsidiaries' internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Corporation and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Corporation and its subsidiaries audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Hsu and Yu-Hsiang Liu.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 20, 2019

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 audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' 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' report and consolidated financial statements shall prevail.

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,277,256	11	\$ 733,720	6	Short-term borrowings (Note 20)	\$ 1,982,214	17	\$ 1,985,337	18
Financial assets at fair value through profit or loss - current (Notes 3, 4 and 7)	780,528	7	2,209,270	20	Short-term bills payable (Note 20)	-	-	920,000	8
Available-for-sale financial assets - current (Notes 3, 4 and 10)	-	-	154,945	1	Contract liabilities (Notes 4, 19 and 24)	69,817	1	-	-
Financial assets at fair value through other comprehensive income - current (Notes 3, 4 and 8)	174,431	1	-	-	Accounts payable	36,441	-	44,512	-
Notes receivable (Notes 4 and 13)	20,567	-	47,724	-	Accounts payable - related parties (Note 30)	235,905	2	228,811	2
Accounts receivable, net (Notes 4, 5 and 13)	523,834	4	426,953	4	Other payables (Notes 16,21, 22 and 30)	899,476	8	830,092	7
Accounts receivable - related parties (Notes 4, 5, 13 and 30)	58,978	1	103,689	1	Current tax liabilities (Note 26)	302,514	2	69,590	1
Other receivables (Note 30)	549,238	5	300,762	3	Other current liabilities	7,577	-	100,152	1
Inventories (Notes 4 and 14)	615,349	5	554,005	5	Total current liabilities	3,533,944	30	4,178,494	37
Non-current assets held for sale (Notes 4 and 19)	10,525	-	-	-	NON-CURRENT LIABILITIES				
Other financial assets - current (Note 15 and 19)	308,561	3	-	-	Long-term bank borrowing (Note 20)	650,000	6	-	-
Other current assets	166,838	1	82,369	1	Deferred tax liabilities (Notes 4, 5 and 26)	6,256	-	13,673	-
Total current assets	4,486,105	38	4,613,437	41	Net defined benefit liabilities (Notes 4 and 22)	168,601	1	166,762	2
NON-CURRENT ASSETS					Other non-current liabilities (Note 19)	2,403	-	3,418	-
Financial assets at fair value through profit of loss - non-current (Notes 3, 4 and 7)	71,135	1	-	-	Total non-current liabilities	827,260	7	183,853	2
Available-for-sale financial assets - non-current (Notes 3, 4 and 10)	-	-	72,648	1	Total liabilities	4,361,204	37	4,362,347	39
Held-to-maturity financial assets - non-current (Notes 3, 4 and 11)	-	-	102,360	1	EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 23)				
Financial assets at amortized cost - non-current (Notes 3, 4 and 9)	17,580	-	-	-	Ordinary shares	2,369,044	20	2,369,044	21
Debt investments with no active market - non-current (Notes 3, 4 and 12)	-	-	92,922	1	Capital surplus	820,648	7	755,849	7
Investments accounted for using equity method (Notes 4 and 17)	1,480,827	13	1,509,608	13	Retained earnings				
Property, plant and equipment (Notes 4, 18 and 30)	3,982,399	34	3,200,754	29	Legal reserve	2,413,957	21	2,369,044	21
Investment properties (Notes 4, 19 and 30)	552,988	5	563,513	5	Special reserve	161,983	1	150,593	1
Deferred tax assets (Notes 4 and 26)	73,043	1	49,732	-	Unappropriated earnings	1,471,119	13	1,164,646	11
Prepaid equipment	397,889	3	392,976	4	Total retained earnings	4,047,059	35	3,684,283	33
Refundable deposits	8,321	-	7,000	-	Other equity	(133,910)	(1)	(161,983)	(2)
Other financial assets - non-current (Notes 15 and 19)	-	-	1,112	-	Treasury shares	(117,638)	(1)	(125,656)	(1)
Long-term prepayments for lease (Note 30)	24,484	-	26,659	-	Total equity attributable to owners of the Corporation	6,985,203	60	6,521,537	58
Other non-current assets (Notes 16 and 30)	621,975	5	602,816	5	NON-CONTROLLING INTERESTS (Note 23)	370,339	3	351,653	3
Total non-current assets	7,230,641	62	6,622,100	59	Total equity	7,355,542	63	6,873,190	61
TOTAL	\$ 11,716,746	100	\$ 11,235,537	100	TOTAL	\$ 11,716,746	100	\$ 11,235,537	100

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

(With Deloitte & Touche auditors' report dated March 20, 2019)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 24 and 30)				
Revenue from sales of goods	\$ 8,403,675	98	\$ 6,044,850	97
Other operating revenue	<u>156,068</u>	<u>2</u>	<u>196,974</u>	<u>3</u>
Total operating revenue	8,559,743	100	6,241,824	100
OPERATING COSTS (Notes 14, 22, 25 and 30)	<u>6,403,231</u>	<u>75</u>	<u>4,651,712</u>	<u>75</u>
GROSS PROFIT	<u>2,156,512</u>	<u>25</u>	<u>1,590,112</u>	<u>25</u>
OPERATING EXPENSES (Notes 22, 25 and 30)				
Selling and marketing expenses	134,865	1	100,656	2
General and administrative expenses	145,813	2	144,761	2
Research and development expenses	102,284	1	95,431	1
Expected credit gain	<u>(2,705)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>380,257</u>	<u>4</u>	<u>340,848</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>1,776,255</u>	<u>21</u>	<u>1,249,264</u>	<u>20</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 25 and 30)	112,257	1	67,764	1
Other losses (Notes 25 and 30)	(62,966)	(1)	(6,529)	-
Share of profit of associates (Note 4)	68,496	1	68,403	1
Interest expense (Note 25)	<u>(8,375)</u>	<u>-</u>	<u>(13,736)</u>	<u>-</u>
Total non-operating income and expenses	<u>109,412</u>	<u>1</u>	<u>115,902</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	1,885,667	22	1,365,166	22
INCOME TAX (Notes 4, 5 and 26)	<u>369,957</u>	<u>4</u>	<u>157,655</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>1,515,710</u>	<u>18</u>	<u>1,207,511</u>	<u>19</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 22, 23 and 26)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(12,958)	-	(12,847)	-
Unrealized losses on financial assets at fair value through other comprehensive income	(489)	-	-	-

(Continued)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
Share of other comprehensive loss of associates accounted for using the equity method	\$ (16,258)	-	\$ (1,244)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	4,627	-	2,184	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	30,638	-	(86,752)	(2)
Unrealized loss on available-for-sale financial assets	-	-	(15,629)	-
Cash flow hedges	-	-	3,044	-
Share of other comprehensive loss of associates accounted for using the equity method	(907)	-	(10,022)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	-	-	(517)	-
Other comprehensive income (loss) for the year, net of income tax	<u>4,653</u>	<u>-</u>	<u>(121,783)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,520,363</u>	<u>18</u>	<u>\$ 1,085,728</u>	<u>17</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,508,446	18	\$ 1,159,836	18
Non-controlling interests	<u>7,264</u>	<u>-</u>	<u>47,675</u>	<u>1</u>
	<u>\$ 1,515,710</u>	<u>18</u>	<u>\$ 1,207,511</u>	<u>19</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 1,501,677	18	\$ 1,064,630	17
Non-controlling interests	<u>18,686</u>	<u>-</u>	<u>21,098</u>	<u>-</u>
	<u>\$ 1,520,363</u>	<u>18</u>	<u>\$ 1,085,728</u>	<u>17</u>
EARNINGS PER SHARE (Note 27)				
Basic	<u>\$ 6.50</u>		<u>\$ 5.00</u>	
Diluted	<u>\$ 6.48</u>		<u>\$ 4.99</u>	

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

(Concluded)

(With Deloitte & Touche auditors' report dated March 20, 2019)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Corporation						Other Equity						Total Equity Attributable to Owners of the Corporation	Non-controlling Interests	Total Equity	
	Ordinary Shares	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 Hedges	Gain (Loss) on Hedging Instruments	Total Other Equity				Treasury Shares
			Legal Reserve	Special Reserve	Unappropriated Earnings											
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)	-	-	77,839	-	(77,839)	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	77,839	-	(77,839)	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(1,066,070)	(1,066,070)	-	-	-	-	-	-	-	(1,066,070)	-	(1,066,070)
Reversal special reserve	-	-	-	(91,543)	91,543	-	-	-	-	-	-	-	-	-	-	-
	-	-	77,839	(91,543)	(1,052,366)	(1,066,070)	-	-	-	-	-	-	-	(1,066,070)	-	(1,066,070)
Changes in capital surplus from investments in associates accounted for using equity method	-	23	-	-	-	-	-	-	-	-	-	-	-	23	-	23
Net profit for the year ended December 31, 2017	-	-	-	-	1,159,836	1,159,836	-	-	-	-	-	-	-	1,159,836	47,675	1,207,511
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(11,907)	(11,907)	(61,901)	(23,854)	-	2,456	-	(83,299)	-	(95,206)	(26,577)	(121,783)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,147,929	1,147,929	(61,901)	(23,854)	-	2,456	-	(83,299)	-	1,064,630	21,098	1,085,728
Adjustments to capital surplus arising from dividends paid to subsidiaries	-	22,849	-	-	-	-	-	-	-	-	-	-	-	22,849	-	22,849
BALANCE AT DECEMBER 31, 2017	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 (Note 3)	-	-	-	-	(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)	-	-	115,984	-	(115,984)	-	-	-	-	-	-	-	-	-	-	-
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 equity method	-	(482)	-	-	-	-	-	-	-	-	-	-	-	(482)	-	(482)
Net profit for the year ended December 31, 2018	-	-	-	-	1,508,446	1,508,446	-	-	-	-	-	-	-	1,508,446	7,264	1,515,710
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(8,537)	(8,537)	18,136	-	(16,541)	-	173	1,768	-	(6,769)	11,422	4,653
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	1,499,909	1,499,909	18,136	-	(16,541)	-	173	1,768	-	1,501,677	18,686	1,520,363
Disposal of the Corporation's shares held by subsidiaries	-	43,415	-	-	-	-	-	-	-	-	-	-	8,018	51,433	-	51,433
Adjustments to capital surplus arising from dividends paid to subsidiaries	-	21,866	-	-	-	-	-	-	-	-	-	-	-	21,866	-	21,866
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	(1,684)	(1,684)	-	-	1,684	-	-	1,684	-	-	-	-
BALANCE AT DECEMBER 31, 2018	\$ 2,369,044	\$ 820,648	\$ 2,413,957	\$ 161,983	\$ 1,471,119	\$ 4,047,059	\$ (44,737)	\$ -	\$ (89,173)	\$ -	\$ -	\$ (133,910)	\$ (117,638)	\$ 6,985,203	\$ 370,339	\$ 7,355,542

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

(With Deloitte & Touche auditors' report dated March 20, 2019)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	<u>For the Year Ended December 31</u>	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 1,885,667	\$ 1,365,166
Adjustments for:		
Depreciation expense	273,566	264,945
Amortization expense	9,609	8,500
Reversal of expected credit loss	(2,705)	-
Impairment loss reversal of accounts receivable	-	(27,446)
Net loss (gain) on financial assets at fair value through profit or loss	74,173	(176,626)
Interest expense	8,375	13,736
Interest income	(23,288)	(12,638)
Dividend income	(35,384)	(32,674)
Share of profit of associates	(76,952)	(74,593)
Loss (gain) on disposal of property, plant and equipment	(240)	407
Gain on disposal of investments	-	(16,587)
Gain on disposal of associates	(11,225)	-
Write-down of inventories	38,021	13,114
Changes in operating assets and liabilities		
Financial instruments held for trading	-	(127,832)
Financial instruments mandatorily classified as at fair value through profit or loss	224,334	-
Notes receivable	27,157	(32,088)
Accounts receivable	(94,163)	(22,289)
Accounts receivable - related parties	44,711	(14,064)
Other receivables	(245,259)	(67,808)
Inventories	(99,229)	(103,154)
Other current assets	(84,469)	(797)
Contract liabilities	(25,920)	-
Accounts payable	(8,071)	22,044
Accounts payable - related parties	7,094	44,675
Other payables	83,944	(2,668)
Other current liabilities	2,052	54,199
Net defined benefit liabilities	(11,119)	(9,707)
Cash generated from operations	<u>1,960,679</u>	<u>1,065,815</u>
Income taxes paid	<u>(163,134)</u>	<u>(137,471)</u>
Net cash generated from operating activities	<u>1,797,545</u>	<u>928,344</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	(13,912)	-
Proceeds from disposal of financial assets at amortized cost	88,298	-
Acquisition of financial assets designated as at fair value through profit or loss	-	(2,050,054)

(Continued)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
Acquisition of financial assets at fair value through profit or loss	\$ (1,814,988)	\$ -
Proceeds from disposal of financial assets designated as at fair value through profit or loss	-	952,462
Proceeds from disposal of financial assets at fair value through profit or loss	3,064,280	-
Proceeds from disposal of available-for-sale financial assets	-	38,095
Proceeds from capital reduction on available-for-sale financial assets	-	2,992
Acquisition of debt investments with no active market	-	(18,451)
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 capital return on investment accounted for using equity method	9,852	20,000
Acquisition of investments accounted for using equity method	-	(170,000)
Acquisition of property, plant and equipment	(1,061,888)	(1,212,019)
Proceeds from disposal of property, plant and equipment	271	4
Increase in refundable deposits	(1,321)	(1,799)
Decrease (increase) in other financial assets	(307,449)	271,794
Increase in other non-current assets	(11,722)	(486)
Interest received	20,058	13,185
Dividends received from associates	31,706	61,467
Dividends received from others	<u>35,384</u>	<u>32,674</u>
Net cash generated from (used in) investing activities	<u>49,505</u>	<u>(2,040,136)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	6,025,486	7,624,623
Repayments of short-term borrowings	(6,028,609)	(6,360,562)
Increase in short-term bills payable	770,000	770,000
Decrease in short-term bills payable	(1,690,000)	(470,000)
Increase in long-term borrowings	850,000	-
Repayments of long-term borrowings	(200,000)	-
Increase in other non-current liabilities	95	2,308
Dividends paid	(1,067,475)	(1,066,070)
Proceeds from disposal of treasury shares	51,433	-
Interest paid	<u>(22,405)</u>	<u>(13,088)</u>
Net cash generated from (used in) financing activities	<u>(1,311,475)</u>	<u>487,211</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>7,961</u>	<u>(13,523)</u>

(Continued)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 543,536	\$ (638,104)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>733,720</u>	<u>1,371,824</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,277,256</u>	<u>\$ 733,720</u>

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

(Concluded)

(With Deloitte & Touche auditors' report dated March 20, 2019)

CHINA STEEL CHEMICAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 December 31, 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 have been traded on the Taiwan Stock Exchange since November 1998.

The consolidated financial statements are presented in the Corporation’s functional currency, New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors and authorized for issue on March 20, 2019.

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 by the Financial Supervisory Commission (FSC)

Except for the following, 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 did 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 have performed an assessment of the classification of recognized financial assets and 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 as at January 1, 2018.

	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Financial Assets					
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 733,720	\$ 733,720	
Equity securities	Designated as at fair value through profit or loss (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 (FVTOCI) - equity instruments	128,104	128,104	a)
	Available-for-sale	Mandatorily at FVTPL - equity instruments	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	

	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)	-	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 - non-current	-	-	-	-	-	-	
Add: Reclassification from held-to-maturity (IAS 39)	-	102,360	(21,068)	81,292	(21,068)	-	c)
Add: Reclassification from available-for-sale (IAS 39)	-	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 other equity - unrealized loss on financial assets at FVTOCI in the amount of NT\$74,316 thousand and to retained earnings in the amount of NT\$24,621 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, on January 1, 2018, because 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 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 amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede 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 changes in retained earnings on January 1, 2018.

Impact on assets, liabilities and equity for the current year

	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 liabilities - current	-	94,627	94,627
Other non-current liabilities	3,418	(1,110)	2,308
Contract liabilities - non-current	<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, the impact on the current year of the application of IFRS is detailed below:

	December 31, 2018
Decrease in contract liabilities - current	\$ (69,817)
Increase in other current liabilities	<u>69,817</u>
Increase (decrease) in liabilities	<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 identifying lease agreements and the accounting of lessor and lessee, and will supersede IAS 17 “Lease, IFRIC 4 “Determining whether an Arrangement Contains a Lease”, 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 the guidance of IFRS 16 in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019. 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 anticipate 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 expect 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.

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.

The anticipated impact for the initial application of IFRSs in 2019 is summarized below:

Anticipated impact on assets and liabilities

	Carrying Amount	Adjustments Arising from Initial Application	Adjusted Carrying Amount
<u>January 1, 2019</u>			
Other current assets	\$ 166,838	\$ (515)	\$ 166,323
Right-of-use assets	-	713,730	713,730
Other non-current assets	<u>621,975</u>	<u>(24,484)</u>	<u>597,491</u>
Impact on assets	<u>\$ 788,813</u>	<u>\$ 688,731</u>	<u>\$ 1,477,544</u>
Lease liabilities - current	\$ -	\$ 37,242	\$ 37,242
Lease liabilities - non-current	<u>-</u>	<u>651,489</u>	<u>651,489</u>
Impact on liabilities	<u>\$ -</u>	<u>\$ 688,731</u>	<u>\$ 688,731</u>

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 conclude 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 entity expects to better predict the resolution of the uncertainty. The Corporation and its subsidiaries have 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 authorized 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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
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
Amendments to IAS 1 and IAS 8 "Definition of Materiality"	January 1, 2020 (Note 3)

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 Corporation and its subsidiaries shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Corporation and its subsidiaries shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the consolidated financial statements were authorized 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

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments which are 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 the plan assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which 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 the 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 the asset or liability.

c. Classification of Current and Non-current Assets and Liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets are realized within twelve months after the balance sheet date; and
- 3) Cash and cash equivalents unless the asset is restricted from being used for an exchange or used to settle a liability for more than twelve months after the balance sheet date.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities expected to be settled within twelve months after the balance sheet date; and
- 3) Liabilities without an unconditional right to defer settlement for at least twelve months after the balance sheet date.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of Consolidation

- 1) Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

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

2) Subsidiaries included in consolidated financial statements

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

e. Foreign Currencies

In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the closing rates. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange difference on transactions entered into in order the hedge certain foreign currency risks.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are recognized in profit or loss for the year except for exchange difference arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the financial statements of foreign subsidiaries are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income accumulated in equity attributed to the owners of the Corporation and non-controlling interests as appropriate.

f. Inventories

Inventories consist of raw materials, supplies, work-in-process, finished goods. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost.

g. Investments in Associates

An associate is an entity over which the Corporation and its subsidiaries have significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Corporation and its subsidiaries use the equity method to account for their investments in associates. Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Corporation and its subsidiaries' share of profit or loss and other comprehensive income of the associate. The Corporation and its subsidiaries also recognize the changes in the share of equity of associates.

When the Corporation and its subsidiaries subscribe for additional new shares of an associate at a percentage different from their existing ownership percentage, the resulting carrying amount of the investment will differs from the existing amount of the Corporation and its subsidiaries' proportionate interest in the associate. The Corporation and its subsidiaries record such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the

share of equity of associates. If the Corporation and its subsidiaries' ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment is a deduction to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is deducted from to retained earnings.

When the Corporation and its subsidiaries' share of losses of an associate equals or exceeds their interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Corporation and its subsidiaries' net investment in the associate), the Corporation and its subsidiaries discontinue recognizing their share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation and its subsidiaries have incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

The Corporation and its subsidiaries discontinue the use of the equity method from the date on which their investment ceases to be an associate. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Corporation and its subsidiaries account for all amount previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Corporation and its subsidiaries transact with their associates, profits or losses on the transactions are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Corporation and its subsidiaries.

h. Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation.

Property, plant and equipment in the course of construction are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

j. Impairment of Tangible Assets

At each balance sheet date, the Corporation and its subsidiaries review the carrying amounts of their tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation and its subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to the cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial Instruments

Financial assets and financial liabilities are recognized when the Corporation and its subsidiaries become 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.

1) Financial assets

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

a) Measurement category

2018

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

i Financial asset at FVTPL

Financial asset classified as at FVTPL is financial asset mandatorily classified as at FVTPL.

Financial assets mandatorily classified as at FVTPL included investments in equity instruments which are not designated at FVTOCI and debt investments 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. 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.

Financial assets at amortized cost, including cash and cash equivalents, notes and accounts receivable (including related parties) at amortized cost, other receivables, 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.

Except for the following two conditions, 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 and commercial papers with original maturities within 3 months from the date of acquisition, high liquidity, 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 are established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets held by the Corporation and its subsidiaries include financial assets at FVTPL, available-for-sale financial assets, held-to-maturity investments and loans and receivables.

i Financial assets at FVTPL

Financial assets at FVTPL is financial assets designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii) The financial asset forms part of the Corporation and its subsidiaries' financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation and its subsidiaries' documented risk management or investment strategy, and information about the the Corporation and its subsidiaries is provided internally on that basis; or
- iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at FVTPL.

Financial assets at FVTPL are stated 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 Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and reclassified in profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized when the Corporation and its subsidiaries' right to receive the dividends is established.

iii Held-to-maturity investments

Structured notes and corporate bonds, which are above specific credit ratings and the Corporation and its subsidiaries have positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

iv Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and accounts receivable, net (including related parties), other receivables, debt investments with no active market, refundable deposits and other financial assets) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits and commercial papers with original maturity within three months from the date of acquisition, high liquidity, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

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

The Corporation and its subsidiaries always recognizes lifetime Expected Credit Loss (ECL) for notes and accounts 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. 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. In contrast, lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instruments.

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.

2017

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation and its subsidiaries' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the securities below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as default or delinquency in interest or principal payments, higher probability that the borrower will enter bankruptcy or financial re-organization, or there is disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

c) Derecognition of financial assets

2018

The Corporation and its subsidiaries derecognize 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.

2017

The Corporation and its subsidiaries derecognize 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Equity instruments issued by the Corporation and its subsidiaries are classified as equity in accordance with the substance of the contractual arrangements and the definitions of an equity instrument.

Equity instruments issued by the Corporation and its subsidiaries are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Corporation's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Corporation's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

l. Non-current assets held-for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

When a non-current asset held for sale is reclassified as a non-current asset held for distribution, the asset is measured at the lower of its carrying amount or fair value less costs to distribute.

m. Treasury Shares

Shares of the Corporation held by subsidiaries are reclassified to treasury shares from investments accounted for using equity method at the acquisition cost. The Corporation distributes dividends to its subsidiaries, it will write-off investment income in its accounts and also adjust additional paid-in capital treasury shares.

n. Revenue Recognition

2018

The Corporation and its subsidiaries identify the contract with the customers, allocates the transaction price to the performance obligations, and recognize 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.

1) 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 do not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from rendering of services

Service income is recognized when services are provided.

2017

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Sales revenue is recognized when goods are delivered and the ownership of the goods has been transferred as follows: domestic sale - when products are delivered; export sales-when the sales conditions of a contract are fulfilled.

The Corporation and its subsidiaries do not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve transfer of risks and rewards of materials ownership.

2) Rendering of services

Service revenue is recognized when services are provided.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Corporation and its subsidiaries and the amount of income can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

o. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The operating leases are as follows:

1) The Corporation and its subsidiaries as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Corporation and its subsidiaries as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are recognized as an expense in the period in which they are incurred.

p. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time that the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Employee Benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost), and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Corporation and its subsidiaries' defined benefit plan.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation and its subsidiaries are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current tax and deferred tax for the year

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation and its subsidiaries' accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Business model assessment for financial assets - 2018

The Corporation and its subsidiaries determine the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment about all relevant evidence including how the performance of the assets is evaluated,

the risks that affect the performance of the assets and how these are managed, and how the managers of the assets are compensated. The Corporation and its subsidiaries monitor financial assets measured at amortized cost and when assets are derecognized prior to their maturity, the Corporation and its subsidiaries understand the reasons for their disposal and whether the reasons are consistent with the objective of the business for which the assets were held. Monitoring is part of the Corporation and its subsidiaries continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and, if it is not appropriate, whether there has been a change in the business model such that a prospective change to the classification of those assets is proper.

b. Income taxes

Since the earnings are expected to be used for expanding foreign operations in the future and will not be remitted inward in the foreseeable future, the Corporation did not recognize deferred tax liabilities on earnings of both NT\$295,253 thousand as of December 31, 2018 and 2017. The realization of deferred income tax liabilities mainly depends on the scale of operation expansion in the future. If the actual investment amount in the future is less than the expected investment amount, a significant income tax reversal will occur and such reversal amount will be recognized in profit and loss upon occurrence. The unrecognized deferred income tax liability related to the invested subsidiaries amounted NT\$59,051 thousand and NT\$50,193 thousand as of December 31, 2018 and 2017, respectively.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 500	\$ 400
Checking accounts and demand deposits	509,177	456,350
Cash equivalents (investment with original maturities less than three months)		
Time deposits	705,969	276,970
Short-term bills	<u>61,610</u>	<u>-</u>
	<u>\$ 1,277,256</u>	<u>\$ 733,720</u>

7. FINANCIAL INSTRUMENTS AT FVTPL

Financial assets at FVTPL - current

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<u>Financial assets designated as at FVTPL</u>		
Non-derivative financial assets		
Mutual funds	\$ -	\$ 1,450,894
Domestic listed shares	-	5,970
Foreign listed shares	<u>-</u>	<u>40,898</u>
	<u>-</u>	<u>1,497,762</u>
<u>Financial assets mandatorily classified as at FVTPL</u>		
Non-derivative financial assets		
Mutual funds	511,403	-
Domestic listed shares	262,993	-

(Continued)

	<u>December 31</u>	
Foreign listed shares	\$ <u>6,132</u>	\$ <u>-</u>
	<u>780,528</u>	<u>-</u>
<hr/> <u>Financial assets held for trading</u> <hr/>		
Non-derivative financial assets		
Domestic listed shares	-	556,538
Mutual funds	<u>-</u>	<u>154,970</u>
	<u>-</u>	<u>711,508</u>
	<u>\$ 780,528</u>	<u>\$ 2,209,270</u>
		(Concluded)

Financial assets at FVTPL - non-current

	<u>December 31</u>	
	2018	2017
<hr/> <u>Financial assets mandatorily classified as at FVTPL</u> <hr/>		
Non-derivative financial assets		
Emerging market shares	\$ 19,406	\$ -
Unquoted ordinary shares	<u>51,729</u>	<u>-</u>
	<u>\$ 71,135</u>	<u>\$ -</u>

8. FINANCIAL ASSETS AT FVTOCI - CURRENT

	December 31, 2018
Domestic investments	
Ordinary shares	\$ 164,492
Preference shares	<u>9,939</u>
	<u>\$ 174,431</u>

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

9. FINANCIAL ASSETS AT AMORTIZED COST - NON-CURRENT

	December 31, 2018
Corporate Bonds - IL & FS Transportation Networks Limited	\$ 13,437
Subordinated financial Bonds - Australia and New Zealand Bank	<u>4,143</u>
	<u>\$ 17,580</u>

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

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017
<u>Current</u>	
Domestic investments	
Listed shares	<u>\$ 154,945</u>
<u>Non-current</u>	
Domestic investments	
Emerging market shares	\$ 16,327
Unquoted ordinary shares	<u>56,321</u>
	<u>\$ 72,648</u>

11. HELD-TO-MATURITY FINANCIAL ASSETS

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

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

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

The structured bonds were classified as held-to-maturity financial assets under IAS 39 but were classified as financial assets at FVTPL under IFRS 9 starting from 2018 and were disposed of in January 2018.

12. DEBT INVESTMENTS WITH NO ACTIVE MARKET - NON-CURRENT

	December 31, 2017
Corporate Bonds - Cayman Ton Yi Industrial Holdings Limited	\$ 41,085
Corporate Bonds - Haikou Meilan International Airport	13,682
	(Continued)

	December 31, 2017
Corporate Bonds - ICBCIL Finance Company Ltd.	\$ 9,563
Corporate Bonds - Industrial & Commercial Bank of China Ltd.	9,545
Corporate Bonds - Ping An Insurance Company of China Limited	8,961
Corporate Bonds - GAZPROM Bank	6,071
Subordinated financial bonds - Australia and New Zealand Bank	<u>4,015</u>
	<u>\$ 92,922</u>
	(Concluded)

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

	<u>December 31</u>	
	2018	2017
Notes receivable		
Operating	<u>\$ 20,567</u>	<u>\$ 47,724</u>
Accounts receivable (including related parties)		
At amortized cost		
Gross carrying amount	\$ 582,812	\$ 533,682
Less: Allowance for impairment loss	<u>-</u>	<u>3,040</u>
	<u>\$ 582,812</u>	<u>\$ 530,642</u>

For the years ended December 31, 2018

The average credit period of sales of goods was 30-90 days. No interest was charged on accounts receivable. The Corporation and its subsidiaries adopted a policy of only dealing with entities that are rated 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, 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 that 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 notes and accounts receivables. The expected credit losses on notes and 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 notes and accounts receivables based on the Corporation and its subsidiaries' provision matrix.

December 31, 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 (%)	-	-	-	-	-	-	
Gross carrying amount	\$ 576,215	\$ 27,047	\$ -	\$ 117	\$ -	\$ -	\$ 603,379
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost	<u>\$ 576,215</u>	<u>\$ 27,047</u>	<u>\$ -</u>	<u>\$ 117</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 603,379</u>

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

	For the Year Ended December 31, 2018
Balance, beginning of year (IAS 39)	\$ 3,040
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1 (IFRS 9)	3,040
Reversal	(2,718)
Written off	<u>(322)</u>
Balance, end of year	<u>\$ -</u>

The subsidiaries assessed some of other receivables would not be collected, and recognized the amount of NT\$13 thousand for impairment loss.

For the year ended December 31, 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
Not past due	\$ 562,056
Up to 30 days	10,104
31 to 60 days	775
61 to 180 days	2,046
More than 366 days	<u>6,425</u>
	<u>\$ 581,406</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 changes 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
More than 366 days	<u>\$ 6,425</u>

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

	December 31, 2017
Up to 30 days	\$ 10,104
31 to 60 days	775
61 to 180 days	<u>2,046</u>
	<u>\$ 12,925</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>(27,446)</u>	<u>-</u>	<u>(27,446)</u>
Balance at December 31, 2017	<u>\$ 3,040</u>	<u>\$ -</u>	<u>\$ 3,040</u>

14. INVENTORIES

	December 31	
	2018	2017
Finished goods	\$ 327,149	\$ 372,600
Work in progress	117,827	48,938
Raw materials	62,340	45,489
Supplies	<u>108,033</u>	<u>86,978</u>
	<u>\$ 615,349</u>	<u>\$ 554,005</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was NT\$6,325,347 thousand and NT\$4,590,410 thousand, respectively. The cost of goods sold included inventory write-downs of NT\$38,021 thousand and NT\$13,114 thousand, respectively.

15. OTHER FINANCIAL ASSETS

	December 31	
	2018	2017
Current		
Time deposits with original maturities more than three months	\$ 307,449	\$ -
Deposits for projects (Note 19)	<u>1,112</u>	<u>-</u>
	<u>\$ 308,561</u>	<u>\$ -</u>
Non-current		
Deposits for projects (Note 19)	<u>\$ -</u>	<u>\$ 1,112</u>

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 Year Ended December 31, 2017
Balance, beginning of year	\$ (3,044)
Recognized in other comprehensive income	126
Transferred to prepaid equipment	<u>2,918</u>
Balance, end of year	<u>\$ -</u>

16. SUBSIDIARIES

The consolidated entities were as follows:

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

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. CSCCC mainly engages in the processing and sale of the by-products produced by Formosa Ha Tinh such as coal tar products, naphtha products and coke. CSCCC was established in January 2016 with a paid-in capital of USD10,000 thousand from the Corporation. As of December 31, 2018, USD3,000 thousand has been paid to this account.

According to the joint venture and collaboration agreement, CSCCC should pay USD\$18,580 thousand to Formosa Ha Tinh to acquire the underwriting premium from Formosa Ha Tinh for its produced coal tar products, naphtha products and coke (accounted under other non-current assets). As of December 31, 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 by equity method were as follows:

	December 31	
	2018	2017
Material associates		
CHC Resources Corporation (CHC)	\$ 295,984	\$ 259,959
Transglory Investment Corporation (TIC)	<u>553,713</u>	<u>545,501</u>
	849,697	805,460
Associates that are not individually material	<u>631,130</u>	<u>704,148</u>
	<u>\$ 1,480,827</u>	<u>\$ 1,509,608</u>

a. Material associates

Name of Associate	Proportion of Ownership and Voting Rights (%)	
	December 31	
	2018	2017
CHC	6	6
TIC	9	9

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

	December 31	
	2018	2017
CHC	<u>\$ 752,469</u>	<u>\$ 805,583</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

	December 31	
	2018	2017
Current assets	\$ 2,557,134	\$ 2,436,204
Non-current assets	6,869,210	5,302,660
Current liabilities	(2,599,952)	(2,432,308)
Non-current liabilities	<u>(1,784,850)</u>	<u>(866,764)</u>
Equity	5,041,542	4,439,792
Non-controlling interests	<u>(141,149)</u>	<u>(135,835)</u>
	<u>\$ 4,900,393</u>	<u>\$ 4,303,957</u>
Proportion of the Corporation and its subsidiaries' ownership (%)	6	6
Equity attributable to the Corporation and its subsidiaries	<u>\$ 295,984</u>	<u>\$ 259,959</u>
Carrying amount	<u>\$ 295,984</u>	<u>\$ 259,959</u>

	For the Year Ended December 31	
	2018	2017
Operating revenue	<u>\$ 9,229,387</u>	<u>\$ 7,266,100</u>
Net profit for the year	\$ 851,476	\$ 787,433
Other comprehensive loss	<u>(13,689)</u>	<u>(42,719)</u>
Total comprehensive income	<u>\$ 837,787</u>	<u>\$ 744,714</u>

TIC

	December 31	
	2018	2017
Current assets	\$ 1,018	\$ 644
Non-current assets	6,439,578	6,429,601
Current liabilities	<u>(421,976)</u>	<u>(500,883)</u>
Equity	<u>\$ 6,018,620</u>	<u>\$ 5,929,362</u>
Proportion of the Corporation and its subsidiaries' ownership (%)	9	9
Equity attributable to the Corporation and its subsidiaries	<u>\$ 553,713</u>	<u>\$ 545,501</u>
Carrying amount	<u>\$ 553,713</u>	<u>\$ 545,501</u>
	For the Year Ended December 31	
	2018	2017
Operating income	<u>\$ 236,539</u>	<u>\$ 223,579</u>
Net profit for the year	\$ 217,245	\$ 203,611
Other comprehensive income (loss)	<u>(127,987)</u>	<u>26,426</u>
Total comprehensive income	<u>\$ 89,258</u>	<u>\$ 230,037</u>

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2018	2017
The Corporation and its subsidiaries' share of		
Net profit for the year	\$ 6,531	\$ 9,861
Other comprehensive loss	<u>(4,236)</u>	<u>(11,150)</u>
 Total comprehensive income (loss)	 <u>\$ 2,295</u>	 <u>\$ (1,289)</u>

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

The investments accounted for using the equity method and the Corporation and its subsidiaries' share of profit or loss and comprehensive income of those investments for the years ended December 31, 2018 and 2017 were based on the associates' financial statement audited by auditors for the same year.

18. PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 2018

	Land	Buildings	Machinery and Equipment	Transportatio n Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>							
Balance at January 1, 2018	\$ 1,145,237	\$ 572,610	\$ 3,672,474	\$ 97,342	\$ 112,682	\$ 1,050,794	\$ 6,651,139
Additions	-	501,153	265,633	19,614	22,868	246,758	1,056,026
Disposals	-	-	(8,266)	(1,014)	(608)	-	(9,888)
Effect of foreign currency exchange differences	-	-	(2,077)	(90)	(357)	-	(2,524)
Balance at December 31, 2018	<u>\$ 1,145,237</u>	<u>\$ 1,073,763</u>	<u>\$ 3,927,764</u>	<u>\$ 115,852</u>	<u>\$ 134,585</u>	<u>\$ 1,297,552</u>	<u>\$ 7,694,753</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 264,959	\$ 3,024,944	\$ 72,866	\$ 87,616	\$ -	\$ 3,450,385
Depreciation expense	-	32,581	219,854	10,322	10,809	-	273,566
Disposals	-	-	(8,235)	(1,014)	(608)	-	(9,857)
Effect of foreign currency exchange differences	-	-	(1,496)	(34)	(210)	-	(1,740)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 297,540</u>	<u>\$ 3,235,067</u>	<u>\$ 82,140</u>	<u>\$ 97,607</u>	<u>\$ -</u>	<u>\$ 3,712,354</u>
Carrying amount at December 31, 2018	<u>\$ 1,145,237</u>	<u>\$ 776,223</u>	<u>\$ 692,697</u>	<u>\$ 33,712</u>	<u>\$ 36,978</u>	<u>\$ 1,297,552</u>	<u>\$ 3,982,399</u>

For the Year Ended December 31, 2017

	Land	Buildings	Machinery and Equipment	Transportatio n 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	-	105,421	98,569	3,311	2,541	679,709	889,551
Disposals	-	(88)	(13,315)	(115)	(270)	-	(13,788)
Effect of foreign currency exchange differences	-	-	(158)	(19)	(168)	-	(345)
Balance at December 31, 2017	<u>\$ 1,145,237</u>	<u>\$ 572,610</u>	<u>\$ 3,672,474</u>	<u>\$ 97,342</u>	<u>\$ 112,682</u>	<u>\$ 1,050,794</u>	<u>\$ 6,651,139</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 237,889	\$ 2,820,825	\$ 63,676	\$ 76,457	\$ -	\$ 3,198,847
Depreciation expense	-	27,157	217,039	9,308	11,441	-	264,945
Disposals	-	(87)	(12,908)	(113)	(269)	-	(13,377)
Effect of foreign currency exchange differences	-	-	(12)	(5)	(13)	-	(30)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 264,959</u>	<u>\$ 3,024,944</u>	<u>\$ 72,866</u>	<u>\$ 87,616</u>	<u>\$ -</u>	<u>\$ 3,450,385</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>

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 Year Ended December 31, 2018

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 572,338	\$ 47,665	\$ 620,003
Transfer to non-current assets held for sale	<u>(10,525)</u>	<u>-</u>	<u>(10,525)</u>
Balance at December 31, 2018	<u>\$ 561,813</u>	<u>\$ 47,665</u>	<u>\$ 609,478</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1 and December 31, 2018	<u>\$ 8,825</u>	<u>\$ 47,665</u>	<u>\$ 56,490</u>
Carrying amount at December 31, 2018	<u>\$ 552,988</u>	<u>\$ -</u>	<u>\$ 552,988</u>

For the Year Ended December 31, 2017

	Land	Buildings	Total
<u>Cost</u>			
Balance at January 1 and December 31, 2017	<u>\$ 572,338</u>	<u>\$ 47,665</u>	<u>\$ 620,003</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1 and December 31, 2017	<u>\$ 8,825</u>	<u>\$ 47,665</u>	<u>\$ 56,490</u>
Carrying amount at December 31, 2017	<u>\$ 563,513</u>	<u>\$ -</u>	<u>\$ 563,513</u>

The Corporation participated in “Qianzhen Residential Building Project” conducted by its fellow subsidiary China Prosperity Development Corporation and signed the land purchase agreement in June 2015 with a cost of NT\$10,525 thousand and recognized the amount as investment properties. The Corporation also signed the land purchase agreement with its employees. According to the purchase agreement, land prices received from employees were deposited in the Bank of Taiwan and recognized as other financial assets - non-current with contra other non-current liabilities as of December 31, 2017.

Since the project was completed and China Prosperity Development Corporation has obtained the building occupation permit and expected to complete the sale in one year. The Corporation transferred its investment property of NT\$10,525 thousand to non-current assets held for sale. It also transferred its price of land to other financial assets - current and contract liabilities - current. After the transfer of land ownership is completed, disposal gain will be recognized.

The Corporation's investment properties of buildings are depreciated in 50 years by straight-line depreciation method.

As of December 31, 2018 and 2017, the fair value of investment properties was NT\$853,081 thousand and NT\$863,606 thousand, respectively. 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

	<u>December 31</u>	
	2018	2017
Bank loans - interest at 0.79%-0.88% p.a. and 0.7%-2.2% p.a. as of December 31, 2018 and 2017, respectively	\$ 1,937,000	\$ 1,818,000
Letters of credit borrowings - interest at 0.99%-1.165% p.a. and 0.99%-1.1% p.a. as of December 31, 2018 and 2017, respectively	<u>45,214</u>	<u>167,337</u>
	<u>\$ 1,982,214</u>	<u>\$ 1,985,337</u>

b. Short-term bills payable

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Unsecured loans		
The amount of borrowings for circular use is NT\$500,000 thousand, from May 2018 to May 2021, and interest at 0.9389% p.a. as of December 31, 2018	\$ 150,000	\$ -
The amount of borrowing is NT\$500,000 thousand, from August 2018 to August 2021, and interest at 1.1955% p.a. as of December 31, 2018	<u>500,000</u>	<u>-</u>
	<u>\$ 650,000</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 becomes positive. The consolidated financial statements of the Corporation and its subsidiaries did not violate the provision in the second quarter, third quarter and for the year ended December 31 2018.

21. OTHER PAYABLES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Royalties (Note 16)	\$ 568,626	\$ 550,946
Salaries and incentive bonus	109,739	98,446
Employees' compensation and remuneration of directors and supervisors	80,612	61,862
Soil remediation expense	59,508	17,935
Outsourced repair and construction	24,244	33,380
Purchase of equipment	7,881	22,430
Others (freight, commission and insurance)	<u>48,866</u>	<u>45,093</u>
	<u>\$ 899,476</u>	<u>\$ 830,092</u>

22. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of a subsidiary in China make contributions in accordance with the local regulations. The subsidiary is required to contribute a specified percentage of payroll costs to the government. The only obligation of the subsidiary in China with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Corporation in accordance with the Labor Standards Law (the “LSL”) is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 12% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the “Bureau”); the Corporation has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Corporation and its subsidiaries’ defined benefit plans were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 347,580	\$ 329,933
Fair value of plan assets	<u>(177,234)</u>	<u>(161,560)</u>
Net defined benefit liability	<u>\$ 170,346</u>	<u>\$ 168,373</u>
Current (included in other payables)	\$ 1,745	\$ 1,611
Non-current	<u>168,601</u>	<u>166,762</u>
	<u>\$ 170,346</u>	<u>\$ 168,373</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
<u>For the Year Ended December 31, 2018</u>			
Balance at January 1, 2018	<u>\$ 329,933</u>	<u>\$ (161,560)</u>	<u>\$ 168,373</u>
Service cost			
Current service cost	6,933	-	6,933
Interest expense (income)	<u>4,083</u>	<u>(2,102)</u>	<u>1,981</u>
Recognized in profit or loss	<u>11,016</u>	<u>(2,102)</u>	<u>8,914</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(4,086)	(4,086)
Actuarial loss - changes in financial assumptions	5,067	-	5,067
Actuarial loss - experience adjustments	<u>11,977</u>	<u>-</u>	<u>11,977</u>
Recognized in other comprehensive income	<u>17,044</u>	<u>(4,086)</u>	<u>12,958</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Contributions from the employer	\$ -	\$ (19,899)	\$ (19,899)
Benefits paid	<u>(10,413)</u>	<u>10,413</u>	<u>-</u>
	<u>(10,413)</u>	<u>(9,486)</u>	<u>(19,899)</u>
Balance at December 31, 2018	<u>\$ 347,580</u>	<u>\$ (177,234)</u>	<u>\$ 170,346</u>
<u>For the Year Ended December 31, 2017</u>			
Balance at January 1, 2017	<u>\$ 306,771</u>	<u>\$ (141,694)</u>	<u>\$ 165,077</u>
Service cost			
Current service cost	6,767	-	6,767
Interest expense (income)	<u>4,218</u>	<u>(2,076)</u>	<u>2,142</u>
Recognized in profit or loss	<u>10,985</u>	<u>(2,076)</u>	<u>8,909</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	670	670
Actuarial loss - changes in demographic assumptions	1,570	-	1,570
Actuarial loss - changes in financial assumptions	4,902	-	4,902
Actuarial loss - experience adjustments	<u>5,705</u>	<u>-</u>	<u>5,705</u>
Recognized in other comprehensive income	<u>12,177</u>	<u>670</u>	<u>12,847</u>
Contributions from the employer	<u>-</u>	<u>(18,460)</u>	<u>(18,460)</u>
Balance at December 31, 2017	<u>\$ 329,933</u>	<u>\$ (161,560)</u>	<u>\$ 168,373</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2018	2017
Operating costs	\$ 6,324	\$ 6,236
Selling and marketing expenses	852	956
General and administrative expenses	864	864
Research and development expenses	<u>874</u>	<u>853</u>
	<u>\$ 8,914</u>	<u>\$ 8,909</u>

Through the defined benefit plans under the LSL, the Corporation is exposed to the following risks:

1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be

below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate (%)	1.125	1.25
Expected rate of salary increase (%)	3	3

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2018	2017
Discount rate		
0.25% increase	<u>\$ (10,136)</u>	<u>\$ (9,725)</u>
0.25% decrease	<u>\$ 10,436</u>	<u>\$ 10,131</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 10,069</u>	<u>\$ 9,780</u>
0.25% decrease	<u>\$ (9,738)</u>	<u>\$ (9,441)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
The expected contributions to the plan for the next year	<u>\$ 20,344</u>	<u>\$ 19,794</u>
The average duration of the defined benefit obligation	12.1 years	12.4 years

23. EQUITY

a. Ordinary share capital

	December 31	
	2018	2017
Number of shares authorized (in thousands)	<u>300,000</u>	<u>300,000</u>
Shares authorized	<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>
Shares issued	<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

	December 31	
	2018	2017
May be used to offset deficits, distribute cash or transfer to share capital (see note below)		
Additional paid-in capital	\$ 218	\$ 218
Treasury share transactions	273,587	230,172
May be used to offset deficits only		
Share of changes in equity of associates	1,268	1,750
Treasury share transactions	<u>545,575</u>	<u>523,709</u>
	<u>\$ 820,648</u>	<u>\$ 755,849</u>

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 capital surplus 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 ordinary 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 shareholders' 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 (NT\$)	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	2016	2017	2016
Legal reserve	\$ 115,984	\$ 77,839		
Recognition (reversal) of special reserve	11,390	(91,543)		
Cash dividends	1,018,689	1,066,070	<u>\$ 4.3</u>	<u>\$ 4.5</u>

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.

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors in March 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 147,112	
Cash dividends	1,255,594	<u>\$ 5.3</u>

The appropriations of earnings for 2018 are subject to the resolution in the shareholders' meeting to be held in June 2019.

d. Other equity items

1) Exchange differences on translating the financial statement of foreign operations

	For the Year Ended December 31	
	2018	2017
Balance, beginning of year	\$ (62,873)	\$ (972)
Exchange differences arising on translating foreign operations	19,216	(60,175)
Share of exchange difference of associates accounted for using the equity method	<u>(1,080)</u>	<u>(1,726)</u>
Balance, end of year	<u>\$ (44,737)</u>	<u>\$ (62,873)</u>

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

	For the Year Ended December 31, 2017
Balance, beginning of year	\$ (75,083)
Unrealized gains on available-for-sale financial assets	958
Reclassified to profit or loss on disposal of available-for-sale financial assets	(16,587)
Share of unrealized gains and losses on available-for-sale financial assets of associates accounted for using the equity method	<u>(8,225)</u>
Balance, end of year	<u>\$ (98,937)</u>

3) Unrealized gains and losses on financial assets at FVTOCI

	For the Year Ended December 31, 2018
Balance, beginning of year (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>(74,316)</u>
Balance, beginning of year (IFRS 9)	(74,316)
Recognized during the year	
Unrealized gain and loss - equity instruments	(489)
Share from associates accounted for using the equity method	(16,052)
Reclassification adjustment	
Disposal of associates accounted for using the equity method	<u>1,313</u>
Other comprehensive income recognized in the year	(89,544)
Cumulative unrealized gain and loss of equity instruments transferred to retained earnings due to disposal	<u>371</u>
Balance, end of year	<u>\$ (89,173)</u>

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

a) Cash flow hedges

	For the Year Ended December 31, 2017
Balance, beginning of year	\$ (2,629)
Fair value changes of hedging instruments	126
Income tax relating to fair value changes	(21)
Fair value changes of hedging instruments transferred to adjust carrying amount of hedged items	2,918
Income tax relating to amounts transferred to adjust carrying amount of hedged items	(496)
Share of fair value changes of hedging instruments of associates accounted for using the equity method	<u>(71)</u>
Balance, end of year	<u>\$ (173)</u>

b) Gain (loss) on hedge instruments

	For the Year Ended December 31, 2018
Balance, beginning of year (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>(173)</u>
Balance, beginning of year (IFRS 9)	(173)
Share of fair value changes of hedging instruments of associates accounted for using the equity method	<u>173</u>
Balance, end of year	<u>\$ -</u>

e. Non-controlling interests

	For the Year Ended December 31	
	2018	2017
Balance, beginning of year	\$ 351,653	\$ 330,555
Attributable to non-controlling interests:		
Net profit for the year	7,264	47,675
Exchange difference arising on translating foreign operation	<u>11,422</u>	<u>(26,577)</u>
Balance, end of year	<u>\$ 370,339</u>	<u>\$ 351,653</u>

f. Treasury shares

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

For the Year Ended December 31, 2018

<u>Beginning of Year</u>		<u>Decrease During the Year</u>			<u>End of Year</u>		
<u>Number of Shares Held</u>	<u>Carrying Amount</u>	<u>Number of Shares Held</u>	<u>Carrying Amount</u>	<u>Selling Price</u>	<u>Number of Shares Held</u>	<u>Carrying Amount</u>	<u>Market Price</u>
5,078	\$ <u>125,656</u>	324	\$ <u>8,018</u>	\$ <u>51,433</u>	4,754	\$ <u>117,638</u>	\$ <u>651,235</u>

For the Year Ended December 31, 2017

<u>Beginning of Year</u>		<u>Decrease During the Year</u>			<u>End of Year</u>		
<u>Number of Shares Held</u>	<u>Carrying Amount</u>	<u>Number of Shares Held</u>	<u>Carrying Amount</u>	<u>Selling Price</u>	<u>Number of Shares Held</u>	<u>Carrying Amount</u>	<u>Market Price</u>
5,078	\$ <u>125,656</u>	-	\$ _____	\$ _____	5,078	\$ <u>125,656</u>	\$ <u>647,386</u>

The Corporation's shares held by the 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 REVENUE

	For the Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from chemical product production and sale	\$ 7,240,065	\$ 5,377,833
Revenue from trading	1,163,610	667,017
Revenue from the rendering of services	<u>93,703</u>	<u>64,795</u>
	<u>8,497,378</u>	<u>6,109,645</u>
Revenue from investment		
Net gain on fair value change of financial assets classified as held for trading	-	83,112
Gain on fair value change of financial assets at FVTPL	12,588	-
Gain on disposal of investments	11,225	16,409
Share of profit of associates	8,456	6,190
Dividend income	<u>30,096</u>	<u>26,468</u>
	<u>62,365</u>	<u>132,179</u>
	<u>\$ 8,559,743</u>	<u>\$ 6,241,824</u>

a. Contract balances

	December 31, 2018
Notes and accounts receivable (Note 13)	<u>\$ 603,379</u>
Contract liabilities	
Sale of goods	\$ 68,707
Other contract liabilities	<u>1,110</u>
	<u>\$ 69,817</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 current year recognized from the beginning contract liability is as follows:

	For the Year Ended December 31, 2018
From the beginning contract liability	
Sale of goods	<u>\$ 94,627</u>

b. Disaggregation of revenue

For the year ended December 31, 2018

	<u>Reportable segments</u>			Total
	Chemicals Segment - Production and Sales	Chemicals Segment - Trading	Investment Segment	
Type of goods or services				
Sale of goods	\$ 7,240,065	\$ 1,163,610	\$ -	\$ 8,403,675
Rendering of services	93,703	-	-	93,703
Others	-	-	62,365	62,365
	<u>\$ 7,333,768</u>	<u>\$ 1,163,610</u>	<u>\$ 62,365</u>	<u>\$ 8,559,743</u>

25. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	<u>For the Year Ended December 31</u>	
	2018	2017
Reversal of accrued payables	\$ 30,952	\$ -
Interest income	23,288	12,638
Income from sale of scarp and wastes	21,609	15,478
Rental income (Note 30)	15,983	16,176
Dividend income	5,288	6,206
Others	15,137	17,266
	<u>\$ 112,257</u>	<u>\$ 67,764</u>

b. Other gains and losses

	<u>For the Year Ended December 31</u>	
	2018	2017
Gain on fair value change of financial assets designated as at FVTPL	\$ -	\$ 93,514
Loss on fair value change of financial assets mandatorily at FVTPL	(86,761)	-
Gain on disposal of investments	-	178
Net foreign exchange gain (loss)	25,192	(55,180)
Soil remediation expenses	-	(43,667)
Gain (loss) on disposal of property, plant and equipment	240	(407)
Others	(1,637)	(967)
	<u>\$ (62,966)</u>	<u>\$ (6,529)</u>

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

	For the Year Ended December 31	
	2018	2017
Foreign exchange gain	\$ 48,923	\$ 16,118
Foreign exchange loss	<u>(23,731)</u>	<u>(71,298)</u>
Net foreign exchange gain (loss)	<u>\$ 25,192</u>	<u>\$ (55,180)</u>

c. Interest expenses

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	\$ 20,899	\$ 11,203
Interest on issuing short-term bills	<u>1,076</u>	<u>2,533</u>
	21,975	13,736
Less: Amounts included in the cost of qualifying assets	<u>13,600</u>	<u>-</u>
	<u>\$ 8,375</u>	<u>\$ 13,736</u>

Information about capitalized interest is as follows:

	For the Year Ended December 31	
	2018	2017
Capitalized interest	<u>\$ 13,600</u>	<u>\$ -</u>
Capitalization rate (%)	0.79	-

d. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	\$ 273,566	\$ 264,945
Long-term prepayments for lease	<u>9,609</u>	<u>8,500</u>
	<u>\$ 283,175</u>	<u>\$ 273,445</u>
An analysis of depreciation by function		
Operating costs	\$ 250,834	\$ 241,003
Operating expenses	<u>22,732</u>	<u>23,942</u>
	<u>\$ 273,566</u>	<u>\$ 264,945</u>
An analysis of amortization by function		
Operating costs	<u>\$ 9,609</u>	<u>\$ 8,500</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits		
Salaries	\$ 421,171	\$ 385,036
Labor and health insurance	21,508	20,594
Others	<u>16,686</u>	<u>11,578</u>
	<u>459,365</u>	<u>417,208</u>
Post-employment benefits		
Defined contribution plans	6,492	6,048
Defined benefit plans (Note 22)	<u>8,914</u>	<u>8,909</u>
	<u>15,406</u>	<u>14,957</u>
	<u>\$ 474,771</u>	<u>\$ 432,165</u>
An analysis by function		
Operating costs	\$ 297,273	\$ 260,087
Operating expenses	<u>177,498</u>	<u>172,078</u>
	<u>\$ 474,771</u>	<u>\$ 432,165</u>

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 years ended December 31, 2018 and 2017 which have been approved by the Corporation's board of directors in March 2019 and 2018, respectively, were as follows:

	Cash	
	For the Year Ended December 31	
	2018	2017
Employees' compensation	\$ 68,067	\$ 51,623
Remuneration of directors and supervisors	13,613	10,325

Material differences between such estimated amounts and the amounts resolved by the board of directors on or before the date the annual consolidated financial statements are authorized for issue are adjusted in the year the bonus and remuneration were recognized. 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 appropriations of employees' compensation and remuneration of directors and supervisors have been resolved by the board of directors in March 2018 and 2017 and consolidated financial statements for 2017 and 2016 as follows:

	<u>For the Year Ended December 31, 2017</u>		<u>For the Year Ended December 31, 2016</u>	
	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>

The difference amounts above were recognized in profit and loss in 2018 and 2017.

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

26. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Current tax		
In respect of the current year	\$ 378,723	\$ 146,526
Adjustments for prior year	12,245	(7,549)
Adjustments under the Alternative Minimum Tax Act	4,904	-
Income tax on unappropriated earnings	<u>186</u>	<u>-</u>
	<u>396,058</u>	<u>138,977</u>
Deferred tax		
In respect of the current year	(26,077)	18,678
Adjustments for prior year	4,306	-
Changes in tax rates	<u>(4,330)</u>	<u>-</u>
	<u>(26,101)</u>	<u>18,678</u>
	<u>\$ 369,957</u>	<u>\$ 157,655</u>

The reconciliation of accounting profit and income tax expense was as follows:

	<u>For the Year Ended December 31</u>	
	2018	2017
Profit before income tax	<u>\$ 1,885,667</u>	<u>\$ 1,365,116</u>
Income tax expense at the statutory rate	\$ 387,731	\$ 211,556
Tax-exempt income	-	(13,500)
Deductible income in determining taxable income	(34,847)	(32,852)

(Continued)

	For the Year Ended December 31	
	2018	2017
Tax credit of investment	\$ (238)	\$ -
Additional income tax under the Alternative Minimum Tax Act	4,904	-
Income tax on unappropriated earnings	186	-
Changes in tax rates	(4,330)	-
Adjustments for prior years	<u>16,551</u>	<u>(7,549)</u>
	<u>\$ 369,957</u>	<u>\$ 157,655</u>
		(Concluded)

The Income Tax Act in the ROC was amended in 2018, the corporate income tax rate was 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%; while the subsidiaries in China are subject to income tax rate of 25%. Tax rates applied by other subsidiaries operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2019 appropriation of earnings is uncertain, the potential income tax consequences of 2018 unappropriated earnings were not reliably determinable.

b. Income tax benefit recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Recognized in other comprehensive income:		
Remeasurement on defined benefit pension plan	\$ (4,627)	\$ (2,184)
Fair value changes of cash flow hedges	-	21
Fair value changes of hedging instruments in cash flow hedges transferred to adjust carrying amounts of hedged items	<u>-</u>	<u>496</u>
	<u>\$ (4,627)</u>	<u>\$ (1,667)</u>

c. Current tax liabilities

	December 31	
	2018	2017
Current tax liabilities		
Income tax payable	<u>\$ 302,514</u>	<u>\$ 69,590</u>

d. Deferred tax assets and liabilities

Movements of deferred tax assets and liabilities were as follows:

For the Year Ended December 31, 2018

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of Year
<hr/> <u>Deferred tax assets</u> <hr/>				
Temporary differences				
Defined benefit pension plan	\$ 28,623	\$ 819	\$ 4,627	\$ 34,069
Unrealized losses on inventories	14,833	9,582	-	24,415
Difference between tax reporting and financial reporting - depreciation methods	6,276	750	-	7,026
Others	<u>-</u>	<u>7,533</u>	<u>-</u>	<u>7,533</u>
	<u>\$ 49,732</u>	<u>\$ 18,684</u>	<u>\$ 4,627</u>	<u>\$ 73,043</u>
<hr/> <u>Deferred tax liabilities</u> <hr/>				
Temporary differences				
Unrealized exchange gains, net	\$ 2,398	\$ (1,142)	\$ -	\$ 1,256
Foreign investment gain	<u>11,275</u>	<u>(6,275)</u>	<u>-</u>	<u>5,000</u>
	<u>\$ 13,673</u>	<u>\$ (7,417)</u>	<u>\$ -</u>	<u>\$ 6,256</u>

For the Year Ended December 31, 2017

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance, End of Year
<hr/> <u>Deferred tax assets</u> <hr/>				
Temporary differences				
Defined benefit pension plan	\$ 28,063	\$ (1,624)	\$ 2,184	\$ 28,623
Unrealized loss on inventories	15,434	(601)	-	14,833
Difference between tax reporting and financial reporting - depreciation methods	6,551	(275)	-	6,276
Unrealized losses from impairment loss	4,299	(4,299)	-	-
Foreign investment loss	2,631	(2,631)	-	-
Unrealized losses from cash flow hedges	<u>517</u>	<u>-</u>	<u>(517)</u>	<u>-</u>
	<u>\$ 57,495</u>	<u>\$ (9,430)</u>	<u>\$ 1,667</u>	<u>\$ 49,732</u>
<hr/> <u>Deferred tax liabilities</u> <hr/>				
Temporary differences				
Unrealized exchange gains, net	\$ 4,425	\$ (2,027)	\$ -	\$ 2,398
Foreign investment gain	<u>-</u>	<u>11,275</u>	<u>-</u>	<u>11,275</u>
	<u>\$ 4,425</u>	<u>\$ 9,248</u>	<u>\$ -</u>	<u>\$ 13,673</u>

- e. The aggregate amount of temporary differences of investments for which deferred tax liabilities have not been recognized

The taxable temporary differences of investments in subsidiaries for which no deferred tax liabilities have been recognized were both NT\$295,253 thousand as of December 31, 2018 and 2017, respectively.

- f. Income tax assessments

The Corporation's 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 year

	<u>For the Year Ended December 31</u>	
	2018	2017
Net profit attributable to owners of the Corporation	\$ <u>1,508,446</u>	\$ <u>1,159,836</u>

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

	<u>For the Year Ended December 31</u>	
	2018	2017
Weighted average number of ordinary shares outstanding	236,904	236,904
Less: Number of treasury shares acquired by subsidiaries	<u>4,846</u>	<u>5,078</u>
Weighted average number of ordinary shares used in computation of basic earnings per share	232,058	231,826
Plus: Effect of dilutive potential ordinary shares - employees' compensation	<u>559</u>	<u>494</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>232,617</u>	<u>232,320</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 have not significantly changed over the years. The capital structure of the Corporation and its subsidiaries consist of net liabilities and equity. Except for the description of Note 20, without any need for complying with other external capital requirements. 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>	
	Carrying Amount	Fair Value
<u>Financial assets</u>		
Held-to-maturity financial assets	<u>\$ 102,360</u>	<u>\$ 81,292</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>December 31, 2018</u>				
Financial assets measured at FVTPL				
Mutual funds	\$ 511,403	\$ -	\$ -	\$ 511,403
Domestic listed shares	262,993	-	-	262,993
Foreign listed shares	6,132	-	-	6,132
Emerging market shares	-	-	19,406	19,406
Domestic unlisted shares	<u>-</u>	<u>-</u>	<u>51,729</u>	<u>51,729</u>
	<u>\$ 780,528</u>	<u>\$ -</u>	<u>\$ 71,135</u>	<u>\$ 851,663</u>
Financial assets at FVTOCI				
Domestic listed shares	<u>\$ 174,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,431</u>
<u>December 31, 2017</u>				
Financial assets measured at FVTPL				
Mutual funds	\$ 1,605,864	\$ -	\$ -	\$ 1,605,864
Domestic listed shares	562,508	-	-	562,508
Foreign listed 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>
Available-for-sale financial assets				
Domestic listed shares	\$ 154,945	\$ -	\$ -	\$ 154,945
Emerging market shares	-	-	16,327	16,327
Domestic unlisted 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>

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

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

	Financial Assets at FVTPL
	For the Year Ended December 31, 2018
Balance, beginning of year (IAS 39)	\$ -
Adjustment on initial application of IFRS 9	<u>72,648</u>
Balance, beginning of year (IFRS 9)	72,648
Recognized in profit or loss	3,769
Purchases	217
Capital reduction	<u>(5,499)</u>
Balance, end of year	<u>\$ 71,135</u>

	Available-for-Sale Financial Assets
	For the Year Ended December 31, 2017
Balance, beginning of year	\$ 77,678
Recognized in other comprehensive income	(659)
Disposal	(1,379)
Capital reduction	<u>(2,992)</u>
Balance, end of year	<u>\$ 72,648</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 unlisted shares was based on the current net value or trading price.

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Measured at FVTPL		
Designated as at FVTPL	\$ -	\$ 1,497,762
Mandatorily at FVTPL (including non-current)	851,663	-
Held for trading	-	711,508
Available-for-sale financial assets (including non-current)	-	227,593
Financial assets at FVTOCI - Equity instruments	174,431	-
Held-to-maturity investments	-	102,360
Loans and receivables 1)	-	1,713,882
Financial assets at amortized cost 2)	2,764,335	-

(Continued)

	December 31	
	2018	2017
Financial liabilities		
Measured at amortized cost 3)	\$ 3,804,036	\$ 4,008,752 (Concluded)

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other financial assets (including non-current), 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 non-current), financial assets at amortized cost – non-current, 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' 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 exchange rates 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 or loss of the Corporation and its subsidiaries when the functional currency against the USD or RMB depreciated by 3%.

	<u>USD Effect (Note)</u>		<u>RMB Effect (Note)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	2018	2017	2018	2017
Profit or loss in Scenario 1	\$ (22,936)	\$ (13,538)	\$ (8,903)	\$ (5,049)
Profit or loss in Scenario 2	22,936	13,538	8,903	5,049

Note: It was mainly derived from the cash and cash equivalents, receivables, debt investment with no active market, 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 in 2018 mainly due to the increase of USD 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 and RMB will be affected by customer orders and shipping schedules.

b) Interest rate risk

The loans of the Corporation and its subsidiaries mainly consist of short-term and long-term borrowing, parts of long-term borrowing rate was fixed. Therefore, there is no interest rate risk 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:

	<u>December 31</u>	
	2018	2017
Cash flow interest rate risk		
Financial assets	\$ 323,053	\$ 422,067
Financial liabilities	150,000	-

c) Other price risk

The Corporation and its subsidiaries are exposed to equity price risk through their investments in listed 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 years ended December 31, 2018 and 2017, respectively, the pre-tax profit for the years ended December 31, 2018 and 2017 would have been higher/lower by NT\$47,996 thousand and NT\$132,556 thousand, respectively, as a result of the fair value changes of financial assets at FVTPL, and the pre-tax other comprehensive income for the years ended December 31, 2018 and 2017 would have been higher/lower by NT\$10,466 thousand and NT\$10,276 thousand, respectively, as a result of the changes in fair value of FVTOCI and available-for-sale financial assets, respectively.

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:

	December 31	
	2018	2017
Customer A	\$ 76,772	\$ 76,954
Customer B	63,983	886
Customer C	<u>-</u>	<u>91,644</u>
	<u>\$ 140,755</u>	<u>\$ 169,484</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 December 31, 2018 and 2017, the Corporation and its subsidiaries had available unutilized short-term bank loan facilities in the amounts of NT\$8.3 billion thousand and NT\$3.5 billion thousand, 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
International CSRC Investment Holding Co., Ltd. (CSRC)	The key management of the Corporation
Linyuan Advanced Materials Technology Co., Ltd.	The subsidiary of the key management of the Corporation
E-One Moli Energy Corporation	The subsidiary of 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
United Steel Engineering & Construction Corporation	Fellow subsidiaries
China Ecotek Corporation	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 Corporation	Fellow subsidiaries
China Steel Security Corporation	Fellow subsidiaries
China Steel Precision Materials Corporation (CSPM)	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 revenue

Account Item	Related Parties Types/Name	<u>For the Year Ended December 31</u>	
		2018	2017
Revenue from sales of goods	The key management of the Corporation CSRC	\$ 892,054	\$ 1,011,566

(Continued)

Account Item	Related Parties Types/Name	For the Year Ended December 31	
		2018	2017
	The subsidiary of the key management of the Corporation	\$ 404,436	\$ 6,461
	Parent entity	16,968	15,554
	Fellow subsidiaries	<u>9,358</u>	<u>12,331</u>
		<u>\$ 1,322,816</u>	<u>\$ 1,045,912</u>
Revenue from the rendering of services	Parent entity	<u>\$ 93,254</u>	<u>\$ 64,553</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 Year Ended December 31	
	2018	2017
Parent entity		
CSC	<u>\$ 2,509,963</u>	<u>\$ 1,992,196</u>
Fellow subsidiaries		
DSC	980,628	866,532
Others	<u>1,195</u>	<u>2,226</u>
	<u>981,823</u>	<u>868,758</u>
Other related parties		
Formosa Ha Tinh	<u>1,128,324</u>	<u>354,702</u>
	<u>\$ 4,620,110</u>	<u>\$ 3,215,656</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	December 31	
		2018	2017
Accounts receivable - related parties	Parent entity	\$ 11,157	\$ 8,748
	Fellow subsidiaries	2,278	3,297
	The key management of the Corporation		
	CSRC	-	91,644
	The subsidiary of the key management of the Corporation	45,543	-
		<u>\$ 58,978</u>	<u>\$ 103,689</u>
Other receivables	Parent entity		
	CSC	\$ 127,197	\$ 84,162
	Fellow subsidiaries	892	740
	Other related parties		
	Formosa Ha Tinh (Caymen)	215,005	208,320
	Others	<u>228</u>	<u>41</u>
		<u>\$ 343,322</u>	<u>\$ 293,263</u>

No guarantee had been received for receivables from related parties. For the years ended December 31, 2018 and 2017, no impairment loss was recognized on receivables from related parties.

d. Payables to related parties

Account Items	Related Parties Types/Name	December 31	
		2018	2017
Accounts payable - related parties	Parent entity		
	CSC	\$ 234,541	\$ 228,663
	Other related parties	1,100	-
	Fellow subsidiaries	<u>264</u>	<u>148</u>
		<u>\$ 235,905</u>	<u>\$ 228,811</u>
Other payables	Parent entity	\$ 12,134	\$ 14,084
	Fellow subsidiaries	1,167	402
	The Key management of the Corporation	2,687	2,062
	Supervisors of the Corporation	4,031	3,093
	Other related parties		
	Formosa Ha Tihn	<u>568,626</u>	<u>550,946</u>
		<u>\$ 588,645</u>	<u>\$ 570,587</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 Year Ended December 31	
	2018	2017
Parent entity	\$ 38,573	\$ 9,500
Fellow subsidiaries		
CSSC	21,169	127,860
Others	46,652	116,288
	<u>67,821</u>	<u>244,148</u>
	<u>\$ 106,394</u>	<u>\$ 253,648</u>

f. Long-term prepayments for lease

Related Parties Types/Name	December 31	
	2018	2017
Fellow subsidiaries		
CSPM	\$ 24,484	\$ 26,659

A subsidiary rented the plant from CSPM and prepaid the rent for a contract period through January 2034. The subsidiary also rented the land from CSPM for a contract period of 45 years (ending in January 2059), rent is paid every year. The annual rent amounted to NT\$3,822 thousand and NT\$3,778 thousand for the years ended December 31, 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), 3 years (ending in December 2020), and 10 years (ending in June 2019). Rent was paid once every six months; the annual rent expense were NT\$17,975 thousand and NT\$16,355 thousand for the years ended December 31, 2018 and 2017, respectively.

The Corporation leased the coke plant from the parent entity for periods of 3 years (ending in December 2020) with the rental paid once every six months; the annual rent expense was NT\$751 thousand and NT\$2,156 thousand for the years ended December 31, 2018 and 2017, respectively.

The Corporation and fellow subsidiary had signed a land and warehouse lease contract for a period ended August 2018; the annual rent expense was NT\$2,336 thousand and NT\$2,173 thousand for the years ended December 31, 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 December 2019 and March 2017, respectively. The lease of office already expired and no longer renewed. The annual rent expense was NT\$6,562 thousand and NT\$6,300 thousand for the years ended December 31, 2018 and 2017, respectively. The rent mentioned above was based on the negotiation between the two parties in the lease contract, 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). The annual rent amount was calculated according to 3% of the announced total present value with the rent advanced every six months and for a period up to December 2020. The annual rent revenue (included in non-operating income - other income) were both NT\$12,317 thousand for the years ended December 31, 2018 and 2017.

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\$445,291 thousand and NT\$359,606 thousand for the years ended December 31, 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, and the assessment of soft asphalt applied to fuel. The fees for technical services amounted to NT\$45,846 thousand and NT\$18,717 thousand for the years ended December 31, 2018 and 2017, respectively.

6) Remuneration of directors and supervisors

Related Parties Types	For the Year Ended December 31	
	2018	2017
Parent entity	\$ 7,229	\$ 5,587
The Key Management of the Corporation	3,119	2,350
Supervisors of the Corporation	<u>4,679</u>	<u>3,525</u>
	<u>\$ 15,027</u>	<u>\$ 11,462</u>

h. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 49,938	\$ 48,143
Post-employment benefits	<u>968</u>	<u>965</u>
	<u>\$ 50,906</u>	<u>\$ 49,108</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 December 31, 2018 were as follows:

- a. Unused balance of the letter of credit issued by the Corporation for the purchase of raw materials and commodities in the amount of NT\$808,116 thousand.
- b. Property, plant and equipment construction contract signed for total amount of NT\$801,806 thousand, within which about NT\$101,618 thousand were 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 (In Thousands of New Taiwan Dollars)
<u>December 31, 2018</u>				
Monetary financial assets				
USD	\$ 34,504	30.715	(USD:NTD)	\$ 1,059,537
RMB	63,125	4.472	(RMB:NTD)	282,297
RMB	3,234	0.1456	(RMB:USD)	14,463
Non-monetary financial assets				
Mandatorily at FVTPL				
JPY	69,094	0.0091	(JPY:USD)	19,222
Monetary financial liabilities				
USD	9,605	30.715	(USD:NTD)	295,007
<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 FVTPL				
NTD	5,970	0.0336	(NTD:USD)	5,970
RMB	10,543	4.565	(RMB:NTD)	48,131
USD	35,054	29.76	(USD:NTD)	1,043,199
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	(USD:RMB)	5,786

For the years ended December 31, 2018 and 2017, realized and unrealized net foreign exchange gains and losses were gain of NT\$25,192 thousand and loss of NT\$55,180 thousand, respectively. 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. Department income and operating results

The Corporation and its subsidiaries have the reporting segments analyzed as follows:

	CSCC/CCSCM	EGI/CSCCC	EWI/CSCM	Adjustment and write-off	Consolidated
<u>For the year ended December 31, 2018</u>					
Revenue from external customers	\$ 8,259,714	\$ 237,664	\$ 62,365	\$ -	\$ 8,559,743
Inter segment revenue	<u>396,570</u>	<u>915,512</u>	<u>46,313</u>	<u>(1,358,395)</u>	<u>-</u>
Segment revenue	<u>\$ 8,656,284</u>	<u>\$ 1,153,176</u>	<u>\$ 108,678</u>	<u>\$ (1,358,395)</u>	<u>\$ 8,559,743</u>
Segment income	\$ 1,681,251	\$ 17,357	\$ 107,092	\$ (29,445)	\$ 1,776,255
Interest income	16,921	3,617	2,944	(194)	23,288
Share of profits of associates	107,189	-	24,071	(62,764)	68,496
Other income	97,501	2,717	5,243	(16,492)	88,969
Interest expense	(8,378)	-	(192)	195	(8,375)
Other gains and losses	<u>2,524</u>	<u>(63,937)</u>	<u>(1,553)</u>	<u>-</u>	<u>(62,966)</u>
Profit (loss) before income tax	1,897,008	(40,246)	137,605	(108,700)	1,885,667
Income tax expense	<u>364,492</u>	<u>-</u>	<u>5,465</u>	<u>-</u>	<u>369,957</u>
Net profit (loss) for the year	<u>\$ 1,532,516</u>	<u>\$ (40,246)</u>	<u>\$ 132,140</u>	<u>\$ (108,700)</u>	<u>\$ 1,515,710</u>
<u>For the year ended December 31, 2017</u>					
Revenue from external customers	\$ 5,803,403	\$ 306,241	\$ 132,180	\$ -	\$ 6,241,824
Inter segment revenue	<u>164,638</u>	<u>174,993</u>	<u>24,400</u>	<u>(364,031)</u>	<u>-</u>
Segment revenue	<u>\$ 5,968,041</u>	<u>\$ 481,234</u>	<u>\$ 156,580</u>	<u>\$ (364,031)</u>	<u>\$ 6,241,824</u>
Segment income	\$ 1,020,693	\$ 84,975	\$ 156,791	\$ (13,195)	\$ 1,249,264
Interest income	6,781	3,448	2,622	(213)	12,638
Share of profits of associates	299,222	-	-	(230,819)	68,403
Other income	51,435	12,543	3,904	(12,756)	55,126
Interest expense	(13,642)	(137)	(170)	213	(13,736)
Other gains and losses	<u>(47,244)</u>	<u>41,183</u>	<u>(468)</u>	<u>-</u>	<u>(6,529)</u>
Profit before income tax	1,317,245	142,012	162,679	(256,770)	1,365,166
Income tax expense	<u>155,858</u>	<u>-</u>	<u>1,797</u>	<u>-</u>	<u>157,655</u>
Net profit for the year	<u>\$ 1,161,387</u>	<u>\$ 142,012</u>	<u>\$ 160,882</u>	<u>\$ (256,770)</u>	<u>\$ 1,207,511</u>

Department interests refers to the profits earned by each department, excluding the administrative cost of the headquarters to be amortized and remuneration of directors and supervisors, rent income, interest income, loss from disposal of property, plant, and equipment, profit from disposal of non-current assets held for sale, profit from disposal of investment, net foreign currency exchange gains and losses,

financial instruments valuation gains and losses, interest expense and 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 borrowings 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

	December 31	
	2018	2017
<hr/> Segment assets <hr/>		
Chemicals segment		
Production and sales	\$ 11,496,171	\$ 10,715,991
Trading	1,678,869	1,691,792
Investment segment	2,075,810	2,086,845
Adjustments and write-off	<u>(3,534,104)</u>	<u>(3,259,091)</u>
	<u>\$ 11,716,746</u>	<u>\$ 11,235,537</u>
<hr/> Segment liabilities <hr/>		
Chemicals segment		
Production and sales	\$ 4,333,921	\$ 4,037,826
Trading	592,555	578,454
Investment segment	5,684	50,877
Adjustments and write-off	<u>(570,956)</u>	<u>(304,810)</u>
	<u>\$ 4,361,204</u>	<u>\$ 4,362,347</u>

f. Revenue from major products and services

The main products and services revenue of the Corporation and its subsidiaries are analyzed as follows:

	For the Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Chemical product production and sale revenue	\$ 7,240,065	\$ 5,377,833
Trading revenue	1,163,610	667,017
Labor service revenue	93,703	64,795
Investment income	<u>62,365</u>	<u>132,179</u>
	<u>\$ 8,559,743</u>	<u>\$ 6,241,824</u>

g. Geographical information

The Corporation and its subsidiaries are operating business mainly in Taiwan and mainland China.

The revenue of the Corporation and its subsidiaries generated from external customers classified by the country and non-current assets classified by country were as follows:

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2018	2017	2018	2017
Taiwan	\$ 4,652,913	\$ 3,760,827	\$ 4,937,085	\$ 4,155,703
China	1,622,160	1,060,560	71,894	78,074
Australia	1,301,578	778,041	-	-
Others	<u>983,092</u>	<u>642,396</u>	<u>570,756</u>	<u>552,941</u>
	<u>\$ 8,559,743</u>	<u>\$ 6,241,824</u>	<u>\$ 5,579,735</u>	<u>\$ 4,786,718</u>

Non-current assets exclude financial instruments, investments accounted for using equity method, deferred income tax assets and refundable deposits.

h. Information about major customers

The external customers that accounted for more than 10% of the consolidated operating revenue of the Corporation and its subsidiaries in 2018 and 2017 were customers of the Corporation and CSCCC (Chemicals segment). The main customers were as follows:

	For the year Ended December 31			
	2018		2017	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)
Company A	\$ 1,206,814	14	\$ 778,041	12
Company B	892,100	10	1,011,566	16
Company C	844,182	10	540,159	9
Company D	<u>757,916</u>	<u>9</u>	<u>644,037</u>	<u>10</u>
	<u>\$ 3,701,012</u>	<u>43</u>	<u>\$ 2,973,803</u>	<u>47</u>