# China Steel Chemical Corporation

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

In our opinion, the accompanying standalone financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### 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 Standalone Financial Statements section of our report. We are independent of the Corporation 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 standalone financial statements, the Corporation has 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 standalone financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the standalone 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 standalone financial statements for the year ended December 31, 2018 is stated as follow:

<u>Revenue recognition</u>

The Corporation's main operating revenue of export sales amounted to NT$1,301,578 thousand, representing 16% of the operating revenue, and its contribution to the gross profit is significant. The Corporation's 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 actually occurs; as a result, we considered operating revenue of export sales as a key audit matters.

Refer to Notes 4 and 20 to the standalone financial statements for the accounting policies and the related disclosures of revenue.

The audit procedures we performed included the following:

1. We understood 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.

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

Management is responsible for the preparation and fair presentation of the standalone financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of standalone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation 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's financial reporting process.

**Auditors' Responsibilities for the Audit of the Standalone Financial Statements**

Our objectives are to obtain reasonable assurance about whether the standalone 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 standalone 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 standalone 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's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's 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 standalone 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 to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone 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 to express an opinion on the standalone financial statements. We are responsible for the direction, supervision, and performance of the 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 standalone 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 standalone financial statements are intended only to present the standalone 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 standalone financial statements are those generally applied in the Republic of China.*

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

## CHINA STEEL CHEMICAL CORPORATION

### STANDALONE BALANCE SHEETS
**(In Thousands of New Taiwan Dollars)**

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 808,420 | 7 | $ 626,388 | 6 |
| Financial assets at fair value through profit or loss - current (Notes 4 and 7) | 105,462 | 1 | 1,070,525 | 10 |
| Available-for-sale financial assets - current (Notes 4 and 9) | - | - | 99,845 | 1 |
| Financial assets at fair value through other comprehensive income - current (Notes 4 and 8) | 71,944 | 1 | - | - |
| Notes receivable (Notes 4 and 10) | 6,558 | - | 34,803 | - |
| Accounts receivable, net (Notes 4, 5 and 10) | 424,019 | 4 | 408,550 | 4 |
| Accounts receivable - related parties (Notes 4, 5, 10 and 26) | 308,772 | 3 | 167,392 | 2 |
| Other receivables (Note 26) | 243,724 | 2 | 89,181 | 1 |
| Inventories (Notes 4 and 11) | 456,176 | 4 | 459,079 | 5 |
| Non-current assets held for sale (Notes 4 and 15) | 10,525 | - | - | - |
| Other financial assets - current (Notes 4 and 12) | 247,131 | 2 | - | - |
| Other current assets | 91,297 | 1 | 36,324 | - |
| Total current assets | 2,774,028 | 25 | 2,992,087 | 29 |
| NON-CURRENT ASSETS | | | | |
| Investments accounted for using equity method (Notes 4 and 13) | 3,263,838 | 29 | 3,280,817 | 31 |
| Property, plant and equipment (Notes 4, 14 and 26) | 3,944,735 | 36 | 3,161,609 | 30 |
| Investment properties (Notes 4 and 15) | 552,988 | 5 | 563,513 | 5 |
| Deferred tax assets ( Notes 4 and 22) | 73,043 | 1 | 49,732 | 1 |
| Prepaid equipment | 397,817 | 4 | 391,515 | 4 |
| Refundable deposits | 8,321 | - | 7,000 | - |
| Other financial assets - non-current (Notes 12 and 15) | - | - | 1,112 | - |
| Other non-current assets | 41,545 | - | 39,065 | - |
| Total non-current assets | 8,282,287 | 75 | 7,494,363 | 71 |
| TOTAL | $ 11,056,315 | 100 | $ 10,486,450 | 100 |

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | **Amount** | **%** | **Amount** | **%** |
| CURRENT LIABILITIES | | | | |
| Short-term borrowings (Notes 16 and 26) | $ 1,982,214 | 18 | $ 1,965,337 | 19 |
| Short-term bills payable (Note 16) | - | - | 890,000 | 8 |
| Contract liabilities (Notes 4, 15 and 20) | 69,817 | - | - | - |
| Accounts payable | 36,320 | - | 44,508 | - |
| Accounts payable - related parties (Note 26) | 312,135 | 3 | 254,049 | 2 |
| Other payables (Notes 17, 18 and 26) | 541,752 | 5 | 483,850 | 5 |
| Current tax liabilities (Note 22) | 294,334 | 3 | 69,224 | 1 |
| Other current liabilities (Note 15) | 9,683 | - | 76,400 | 1 |
| Total current liabilities | 3,246,255 | 29 | 3,783,368 | 36 |
| NON-CURRENT LIABILITIES | | | | |
| Long-term bank borrowing (Note 16) | 650,000 | 6 | - | - |
| Deferred tax liabilities (Notes 4, 5 and 22) | 6,256 | - | 13,673 | - |
| Net defined benefit liabilities (Notes 4 and 18) | 168,601 | 2 | 166,762 | 2 |
| Other non-current liabilities | - | - | 1,110 | - |
| Total non-current liabilities | 824,857 | 8 | 181,545 | 2 |
| Total liabilities | 4,071,112 | 37 | 3,964,913 | 38 |
| EQUITY (Note 19) | | | | |
| Ordinary shares | 2,369,044 | 21 | 2,369,044 | 23 |
| Capital surplus | 820,648 | 7 | 755,849 | 7 |
| Retained earnings | | | | |
| Legal reserve | 2,413,957 | 22 | 2,369,044 | 23 |
| Special reserve | 161,983 | 2 | 150,593 | 1 |
| Unappropriated earnings | 1,471,119 | 13 | 1,164,646 | 11 |
| Total retained earnings | 4,047,059 | 37 | 3,684,283 | 35 |
| Other equity | (133,910) | (1) | (161,983) | (2) |
| Treasury shares | (117,638) | (1) | (125,656) | (1) |
| Total equity | 6,985,203 | 63 | 6,521,537 | 62 |
| TOTAL | $ 11,056,315 | 100 | $ 10,486,450 | 100 |

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

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

# CHINA STEEL CHEMICAL CORPORATION

## STANDALONE 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, 20 and 26) | | | | |
| Revenue from sales of goods | $ 8,086,814 | 99 | $ 5,748,742 | 99 |
| Other operating revenue | 105,899 | 1 | 64,795 | 1 |
| Total operating revenue | 8,192,713 | 100 | 5,813,537 | 100 |
| OPERATING COSTS (Notes 11, 18, 21 and 26) | 6,173,801 | 75 | 4,466,472 | 77 |
| GROSS PROFIT | 2,018,912 | 25 | 1,347,065 | 23 |
| OPERATING EXPENSES (Notes 18, 21 and 26) | | | | |
| Selling and marketing expenses | 128,660 | 2 | 95,435 | 2 |
| General and administrative expenses | 137,899 | 2 | 137,701 | 2 |
| Research and development expenses | 102,327 | 1 | 95,430 | 1 |
| Expected credit gain | (2,718) | - | - | - |
| Total operating expenses | 366,168 | 5 | 328,566 | 5 |
| PROFIT FROM OPERATIONS | 1,652,744 | 20 | 1,018,499 | 18 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Other income (Notes 21 and 26) | 113,761 | 2 | 57,980 | 1 |
| Other gains and losses (Notes 21 and 26) | 3,686 | - | (46,365) | (1) |
| Share of profit of subsidiaries and associates (Note 4) | 107,189 | 1 | 299,222 | 5 |
| Interest expense (Note 21) | (8,180) | - | (13,642) | - |
| Total non-operating income and expenses | 216,456 | 3 | 297,195 | 5 |
| PROFIT BEFORE INCOME TAX | 1,869,200 | 23 | 1,315,694 | 23 |
| INCOME TAX (Notes 4, 5 and 22) | 360,754 | 5 | 155,858 | 3 |
| NET PROFIT FOR THE YEAR | 1,508,446 | 18 | 1,159,836 | 20 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Notes 18, 19 and 22) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans | (12,958) | - | (12,847) | - |

(Continued)

## CHINA STEEL CHEMICAL CORPORATION

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

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Amount | % | Amount | % |
| Unrealized losses on financial assets at fair value through other comprehensive income | $ (1,061) | - | $ - | - |
| Share of other comprehensive loss of subsidiaries and associates accounted for using the equity method | (15,686) | - | (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 | 22,868 | - | (58,429) | (1) |
| Unrealized loss on available-for-sale financial assets | - | - | (3,466) | - |
| Cash flow hedges | - | - | 3,044 | - |
| Share of other comprehensive loss of subsidiaries and associates accounted for using the equity method | (4,559) | - | (23,931) | (1) |
| Income tax relating to items that may be reclassified subsequently to profit or loss | - | - | (517) | - |
| Other comprehensive loss for the year, net of income tax | (6,769) | - | (95,206) | (2) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 1,501,677 | 18 | $ 1,064,630 | 18 |
| EARNINGS PER SHARE (Note 23) | | | | |
| Basic | $ 6.50 | | $ 5.00 | |
| Diluted | $ 6.48 | | $ 4.99 | |

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

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

# CHINA STEEL CHEMICAL CORPORATION

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

| | | | Retained Earnings | | | | Other Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ordinary Shares | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Total Retained Earnings | Exchange Differences on Translating Foreign Operations | Unrealized Gains and Losses on Available-for-sale Financial Assets | Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income | Cash Flow Hedges | Gains (Loss) on Hedging Instruments | Total Other Equity | Treasury Shares | Total Equity |
| 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 |
| Appropriation of 2016 earnings (Note 19) | | | | | | | | | | | | | | |
| Legal reserve | - | - | 77,839 | - | (77,839) | - | - | - | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | (1,066,070) | (1,066,070) | - | - | - | - | - | - | - | (1,066,070) |
| Reserve of special reserve | - | - | - | (91,543) | 91,543 | - | - | - | - | - | - | - | - | - |
| | - | - | 77,839 | (91,543) | (1,052,366) | (1,066,070) | - | - | - | - | - | - | - | (1,066,070) |
| Changes in capital surplus from investments in associates accounted for using equity method | - | 23 | - | - | - | - | - | - | - | - | - | - | - | 23 |
| Net profit for the year ended December 31, 2017 | - | - | - | - | 1,159,836 | 1,159,836 | - | - | - | - | - | - | - | 1,159,836 |
| 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) |
| 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 |
| Adjustments to capital surplus arising from dividends paid to subsidiaries | - | 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 |
| Effect of retrospective application and retrospective restatement (Note 3) | - | - | - | - | (45,689) | (45,689) | - | 98,937 | (74,316) | 173 | (173) | 24,621 | - | (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 |
| Appropriation of 2017 earnings (Note 29) | | | | | | | | | | | | | | |
| 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) |
| | - | - | 44,913 | 11,390 | (1,146,063) | (1,089,760) | - | - | - | - | - | - | - | (1,089,760) |
| Changes in capital surplus from investments in associates accounted for using equity method | - | (482) | - | - | - | - | - | - | - | - | - | - | - | (482) |
| Net profit for the year ended December 31, 2018 | - | - | - | - | 1,508,446 | 1,508,446 | - | - | - | - | - | - | - | 1,508,446 |
| 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) |
| 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 |
| Disposal of the Corporation's shares held by subsidiaries | - | 43,415 | - | - | - | - | - | - | - | - | - | - | 8,018 | 51,433 |
| Adjustments to capital surplus arising from dividends paid to subsidiaries | - | 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 |

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

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

# CHINA STEEL CHEMICAL CORPORATION

## STANDALONE STATEMENTS OF CASH FLOWS
**(In Thousands of New Taiwan Dollars)**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before income tax | $ 1,869,200 | $ 1,315,694 |
| Adjustments for: | | |
| Depreciation expense | 267,736 | 260,111 |
| Amortization expense | 7,084 | 6,046 |
| Impairment loss reversal of accounts receivable | - | (27,446) |
| Reversal of expected credit loss | (2,718) | - |
| Net gain (loss) on fair value change of financial assets designated as at fair value through profit or loss | 25,682 | (55,536) |
| Interest expense | 8,180 | 13,642 |
| Interest income | (16,654) | (6,554) |
| Dividend income | (2,571) | (2,494) |
| Share of profit of subsidiaries and associates | (107,189) | (299,222) |
| Gain (loss) on disposal of property, plant and equipment | (240) | 406 |
| Gain on disposal of investments | - | (178) |
| Write-down of inventories | 34,829 | 19,505 |
| Changes in operating assets and liabilities | | |
| Financial instruments mandatorily classified as at fair value through profit or loss | 966,221 | - |
| Notes receivable | 28,245 | (20,307) |
| Accounts receivable | (12,751) | (5,697) |
| Accounts receivable - related parties | (141,380) | (48,193) |
| Other receivables | (151,313) | (63,012) |
| Inventories | (31,926) | (67,617) |
| Other current assets | (54,973) | 16,845 |
| Contract liabilities | (136) | - |
| Accounts payable | (8,188) | 18,585 |
| Accounts payable - related parties | 58,086 | 65,162 |
| Other payables | 72,463 | (11,545) |
| Other current liabilities | 2,126 | 61,894 |
| Net defined benefit liabilities | (11,119) | (9,707) |
| Cash generated from operations | 2,798,694 | 1,160,382 |
| Income taxes paid | (161,745) | (127,242) |
| Net cash generated from operating activities | 2,636,949 | 1,033,140 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets designated as at fair value through profit or loss | - | (1,527,148) |
| Proceeds from disposal of financial assets designated as at fair value through profit or loss | - | 608,949 |
| Proceeds on sale of available-for-sale financial assets | - | 3,679 |
| Acquisition of investments accounted for using equity method | - | (170,000) |

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# CHINA STEEL CHEMICAL CORPORATION

## STANDALONE STATEMENTS OF CASH FLOWS
**(In Thousands of New Taiwan Dollars)**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Proceeds from capital reduction on investment accounted for using equity method | $ 9,852 | $ 20,000 |
| Acquisition of property, plant and equipment | (1,058,145) | (1,203,843) |
| Proceeds from disposal of property, plant and equipment | 271 | 3 |
| Increase in refundable deposits | (1,321) | (1,799) |
| Decrease (increase) in other financial assets | (246,019) | 86,971 |
| Increase in other non-current assets | (9,564) | - |
| Interest received | 13,424 | 6,740 |
| Dividends received from subsidiaries and associates | 168,688 | 249,479 |
| Other dividends received | 2,571 | 2,494 |
| Net cash used in investing activities | (1,120,243) | (1,924,475) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from short-term borrowings | 6,025,486 | 7,567,428 |
| Repayments of short-term borrowings | (6,008,609) | (6,423,367) |
| Increase in short-term bills payable | 770,000 | 660,000 |
| Decrease in short-term bills payable | (1,660,000) | (390,000) |
| Increase in long-term borrowings | 850,000 | - |
| Decrease in long-term borrowings | (200,000) | - |
| Cash dividends paid | (1,089,341) | (1,066,070) |
| Interest paid | (22,210) | (13,046) |
| Net cash generated from (used in) financing activities | (1,334,674) | 334,945 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 182,032 | (556,390) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 626,388 | 1,182,778 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 808,420 | $ 626,388 |

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

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

# CHINA STEEL CHEMICAL CORPORATION

**NOTES TO STANDALONE 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 standalone financial statements are presented in the Corporation's functional currency, New Taiwan dollars.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The standalone 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 into effect by the 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's 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 has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

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

| | Measurement Category | | Carrying Amount | |
|---|---|---|---|---|
| **Financial Assets** | **IAS 39** | **IFRS 9** | **IAS 39** | **IFRS 9** |
| Cash and cash equivalents | Loans and receivables | Amortized cost | $ 626,388 | $ 626,388 |
| Equity securities | Designated as at fair value through profit or loss (FVTPL) | Mandatorily at FVTPL | 1,070,525 | 1,070,525 |
| | Available-for-sale | Fair value through other comprehensive income (FVTOCI) - equity instruments | 73,004 | 73,004 |
| | Available-for-sale | Mandatorily at FVTPL - equity instruments | 26,841 | 26,841 |
| Notes and accounts receivable(including related parties), other receivables, other financial assets and refundable deposits | Loans and receivables | Amortized cost | 708,038 | 708,038 |

| **Financial Assets** | **IAS 39 Carrying Amount as of January 1, 2018** | **Reclassifi-cations** | **Remea-surements** | **IFRS 9 Carrying Amount as of January 1, 2018** | **Retained Earnings Effect on January 1, 2018** | **Other Equity Effect on January 1, 2018** |
|---|---|---|---|---|---|---|
| FVTPL - current | $ 1,070,525 | $ - | $ - | $ 1,070,525 | $ - | $ - |
| Add: Reclassification from available-for-sale (IAS 39) | - | 26,841 | - | 26,841 | (519) | 519 |
| | 1,070,525 | 26,841 | - | 1,097,366 | (519) | 519 |
| FVTOCI - current | - | - | - | - | - | - |
| Add: Reclassification from available-for-sale (IAS 39) | - | 73,004 | - | 73,004 | - | - |
| | - | 73,004 | - | 73,004 | - | - |
| | $ 1,070,525 | $ 99,845 | $ - | $ 1,170,370 | $ (519) | $ 519 |

The Corporation elected to designate all of its investments in listed shares and mutual funds 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 of NT$98,937 thousand was reclassified to other equity - unrealized loss on financial assets at FVTOCI of NT$74,316 thousand and to retained earnings 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.

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

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

Under IFRS 15, the net effect of revenue recognized, 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 elected only to retrospectively apply IFRS 15 to contracts that were not completed on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

Impact on assets, liabilities and equity for current year

| | As Originally Stated as of January 1, 2018 | Adjustments Arising from Initial Application | Restated as of January 1, 2018 |
|---|---|---|---|
| Other current liabilities | $ 76,400 | $ (68,843) | $ 7,557 |
| Contract liability - current | - | 68,843 | 68,843 |
| Other non-current liabilities | 1,110 | (1,110) | - |
| Contract liability - non-current | - | 1,110 | 1,110 |
| Total effect on liabilities | $ 77,510 | $ - | $ 77,510 |

If the Corporation continues to adopt IAS 18 in 2018, the impact on the current year of the application of IFRS 15 is detailed below:

| | December 31, 2018 |
|---|---|
| Decrease in contract liabilities - current | $ (69,817) |
| Increase in other current liabilities | 69,817 |
| Total | $ - |

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 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 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 as lessee

Upon initial application of IFRS 16, the Corporation will recognize right-of-use assets and lease liabilities for all leases on the standalone 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 standalone statements of comprehensive income, the Corporation 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 standalone 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 standalone statements of cash flows.

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the rate 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 expects to apply the following practical expedients:

a) The Corporation will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Corporation will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Corporation will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

d) The Corporation will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Corporation as lessor

The Corporation 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

| January 1, 2019 | **Carrying Amount** | **Adjustments Arising from Initial Application** | **Adjusted Carrying Amount** |
|---|---|---|---|
| Other current assets | $ 91,297 | $ (515) | $ 90,782 |
| Right-of-use assets | | 660,814 | 660,814 |
| Impact on assets | $ 91,297 | $ 660,299 | $ 751,596 |
| Lease liabilities - current | $ - | $ 35,919 | $ 35,919 |
| Lease liabilities - non-current | - | 624,380 | 624,380 |
| Impact on liabilities | $ - | $ 660,299 | $ 660,299 |

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Corporation should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Corporation concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Corporation 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 should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Corporation expects to better predict the resolution of the uncertainty. The Corporation has to reassess its judgments and estimates if facts and circumstances change.

Upon initial application, the Corporation 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 standalone financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

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

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| Amendment 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 |
| Amendment to IAS 1 and IAS 8 "Definition of Materiality" | January 1, 2020 (Note 3) |

Note1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Corporation 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 shall begin prospectively applying these amendments for the first annual reporting period beginning on January 1, 2020.

As of the date the standalone financial statements were reported to the board of directors for issue, the Corporation is continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation's 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 standalone financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of Preparation

The standalone 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.

When preparing its parent company only financial statements, the Corporation used equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Corporation in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

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. Foreign Currencies

In preparing the financial statements, transactions in currencies other than the Corporation'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 expect 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 standalone 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 as appropriate.

e. 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.

f. Investments in Subsidiaries

The Corporation uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Corporation.

Under the equity method, an investment is initially recognized at cost and adjusted thereafter to recognize the Corporation’s share of profit or loss and other comprehensive income of the subsidiary. The Corporation also recognizes the changes in the share of other equity of subsidiaries.

Changes in the Corporation’s ownership interest in a subsidiary that do not result in the Corporation losing control over the subsidiary are accounted for as equity transaction. Any difference between the carrying amount of the investment and the fair value of consideration paid or received is directly recognized in equity.

Any excess of the cost of acquisition over the Corporation’s share of the net fair value of the identifiable assets and liabilities of a subsidiary recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Corporation’s share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Corporation loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Corporation had directly disposed of the related assets or liabilities.

Unrealized profits or losses on downstream transactions with subsidiaries are eliminated in the standalone financial statements. Profits and losses on transactions with subsidiaries other than downstream are recognized in standalone financial statements only to the extent of interests in the subsidiary that are not related to the Corporation.

g. Investments in Associates

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

The Corporation uses the equity method to account for its investments in associates. Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Corporation’s share of profit or loss and other comprehensive income of the associate. The

Corporation also recognizes the changes in the share of equity of associates.

When the Corporation subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differs from the existing amount of the Corporation's proportionate interest in the associate. The Corporation records 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's 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's 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's net investment in the associate), the Corporation discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation has 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 discontinues the use of the equity method from the date on which its 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 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 transacts with its associates, profits or losses on the transactions are recognized in the standalone financial statements only to the extent of interests in the associate that are not related to the Corporation.

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 reviews the carrying amounts of its 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 estimates 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 becomes a party to the contractual provisions of the instruments.

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

1) Financial assets

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

a) Measurement category

<u>2018</u>

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 assets classified as at FVTPL are financial assets 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 25.

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.

i) The financial assets bought or created at credit loss, which interest income amount is determined by effective interest rate after credit adjustment multiplied amortized cost of financial assets.

ii) The financial assets not bought or created at credit loss, but became financial assets at credit loss later, which interest income amount in determined by effective interest rate multiplied by amortized cost of financial assets.

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 Corporations' right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets held by the Corporation 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 are 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's 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 documented risk management or investment strategy, and information about the Corporation 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 25.

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's right to receive the dividends is established.

iii Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and accounts receivable, net (including related parties), other receivables, 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

<u>2018</u>

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

The Corporation always recognizes lifetime Expected Credit Loss (ECL) for notes and accounts receivables. For all other financial instruments, the Corporation 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 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 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.

<u>2017</u>

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's 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 derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

2017

The Corporation 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 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 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.

Assets classified as non-current assets held for sale are 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. When the Corporation distributes dividends to its subsidiaries, it will write off investment income in its account and also adjust additional paid-in capital - treasury shares.

n. Revenue Recognition

<u>2018</u>

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

For contract where the period between the date the Corporation 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 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 does 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 revenue is recognized when services are provided.

<u>2017</u>

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 does 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 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 as lessor

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

2) The Corporation 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) Shore-term employee benefits

Liabilities recognized in respect of shore-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's 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 is 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 expects, 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’s 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 determines 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 monitors financial assets measured at amortized cost and when assets are derecognized prior to their maturity, the Corporation understands 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's 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 to NT$59,051 thousand and NT$50,193 thousand as of December 31, 2018 and 2017, respectively.

## 6. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Cash on hand | $ 500 | $ 400 |
| Checking accounts and demand deposits | 285,884 | 349,018 |
| Cash equivalents (investment with original maturities less than three months) | | |
| Time deposits | 460,426 | 276,970 |
| Short-term bills | 61,610 | - |
| | $ 808,420 | $ 626,388 |

## 7. FINANCIAL INSTRUMENTS AT FVTPL - CURRENT

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Financial assets designated as at FVTPL | | |
| Non-derivative financial assets | | |
| Mutual funds | $ - | $ 1,070,525 |
| Financial assets mandatorily classified as at FVTPL | | |
| Non-derivative financial assets | | |
| Mutual funds | $ 103,315 | $ - |
| Domestic listed shares | 2,147 | - |
| | $ 105,462 | $ - |

## 8. FINANCIAL ASSETS AT FVTOCI - CURRENT

| | December 31, 2018 |
|---|---|
| Domestic investments | |
| Ordinary shares | $ 62,005 |
| Preference shares | 9,939 |
| | $ 71,944 |

These investments in equity instruments are held together with the Corporation's strategy and are not for the purpose 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 9 for information relating to their reclassification and comparative information for 2017.

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

| | December 31, 2017 |
|---|---|
| Domestic investments | |
| Listed shares | $ 99,845 |

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

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Notes receivable | | |
| Operating | $ 6,558 | $ 34,803 |
| Accounts receivable (including related parties) | | |
| At amortized cost | | |
| Gross carrying amount | $ 732,791 | $ 578,982 |
| Less: Allowance for impairment loss | - | 3,040 |
| | $ 732,791 | $ 575,942 |

For the year ended December 31, 2018

The average credit period of sales of goods was 30-90 days. No interest was charged on accounts receivables. The Corporation 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 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 reviews the recoverable amount of each individual trade debt at the end of the balance sheet date to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, management believes that the Corporation's credit risk was significantly reduced.

The Corporation 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's 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's different customer base.

The following table details the loss allowance of notes and accounts receivables based on the Corporation's 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 | $ 738,955 | $ 394 | $ - | $ - | $ - | $ - | $ 739,349 |
| Loss allowance (Lifetime ECL) | - | - | - | - | - | - | - |
| Amortized cost | $ 738,955 | $ 394 | $ - | $ - | $ - | $ - | $ 739,349 |

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 | - |
| Balance at January 1 (IFRS 9) | 3,040 |
| Reversal | (2,718) |
| Written off | (322) |
| Balance, end of year | $ - |

December 31, 2017

The Corporation applied the same credit policy in 2018 and 2017. The Corporation 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 | $ 605,996 |
| Up to 30 days | 1,364 |
| More than 366 days | 6,425 |
| | $ 613,785 |

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 did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Corporation 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 | $ 6,425 |

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

| | December 31, 2017 |
|---|---|
| Up to 30 days | $ 1,364 |

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 | (27,446) | - | (27,446) |
| Balance at December 31, 2017 | $ 3,040 | $ - | $ 3,040 |

## 11. INVENTORIES

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Finished goods | $ 259,614 | $ 322,595 |
| Work in progress | 70,467 | 32,711 |
| Supplies | 100,876 | 86,108 |
| Raw materials | 25,219 | 17,665 |
| | $ 456,176 | $ 459,079 |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was NT$6,095,916 thousand and NT$4,405,169 thousand, respectively. The cost of goods sold included inventory write-downs of NT$34,829 thousand and NT$19,505 thousand, respectively.

## 12. OTHER FINANCIAL ASSETS

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current | | |
| Time deposits with original maturities more than three months | $ 246,019 | $ - |
| Deposits for projects (Note 15) | 1,112 | - |
| | $ 247,131 | $ - |
| Non-current | | |
| Deposits for projects (Note 15) | $ - | $ 1,112 |

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 | 2,918 |
| Balance, end of year | $ - |

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Investments in subsidiaries | $ 1,957,820 | $ 1,993,640 |
| Investments in associates | 1,306,018 | 1,287,177 |
| | $ 3,263,838 | $ 3,280,817 |

a. Investments in subsidiaries

| | December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Amount | % of Owner - ship | Amount | % of Owner - ship |
| Unlisted companies | | | | |
| Ever Wealthy Investment Corporation (EWI) | $ 1,359,482 | 100 | $ 1,357,611 | 100 |

(Continued)

| | December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Amount | % of Owner - ship | Amount | % of Owner - ship |
| Ever Glory International Co., Ltd. | $ 345,637 | 100 | $ 410,032 | 100 |
| Formosa Ha Tinh CSCC (Cayman) International Limited (CSCCC) | 370,339 | 50 | 351,653 | 50 |
| | 2,075,458 | | 2,119,296 | |
| Less: Shares held by subsidiaries accounted for as treasury shares | 117,638 | | 125,656 | |
| | $ 1,957,820 | | $ 1,993,640 | |

(Concluded)

The above investments accounted for using equity method and the Corporation's share of profit or loss and other comprehensive income were based on the audited financial statements of the subsidiaries for the same reporting period.

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.

b. Investments in associates

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Material associates | | |
| CHC Resources Corporation (CHC) | $ 295,984 | $ 259,959 |
| Transglory Investment Corporation (TIC) | 553,713 | 545,501 |
| | 849,697 | 805,460 |
| Associates that are not individually material | 456,321 | 481,717 |
| | $ 1,306,018 | $ 1,287,177 |

1) Material associates

| | Proportion of Ownership and Voting Rights (%) | |
|---|---|---|
| | December 31 | |
| Name of Associate | 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 | $ 752,469 | $ 805,583 |

The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Corporation 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 | (1,784,850) | (866,764) |
| Equity | 5,041,542 | 4,439,792 |
| Non-controlling interests | (141,149) | (135,835) |
| | $ 4,900,393 | $ 4,303,957 |
| Proportion of the Corporation's ownership (%) | 6 | 6 |
| Equity attributable to the Corporation | $ 295,984 | $ 259,959 |
| Carrying amount | $ 295,984 | $ 259,959 |

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

TIC

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current assets | $ 1,018 | $ 644 |
| Non-current assets | 6,439,578 | 6,429,601 |
| Current liabilities | (421,976) | (500,883) |
| Equity | $ 6,018,620 | $ 5,929,362 |

(Continued)

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Proportion of the Corporation's ownership (%) | 9 | 9 |
| Equity attributable to the Corporation | $ 553,713 | $ 545,501 |
| Carrying amount | $ 553,713 | $ 545,501 |

(Concluded)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Operating income | $ 236,539 | $ 223,579 |
| Net profit for the year | $ 217,245 | $ 203,611 |
| Other comprehensive income (loss) | (127,987) | 26,426 |
| Total comprehensive income | $ 89,258 | $ 230,037 |

2) Aggregate information of associates that are not individually material

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| The Corporation's share of | | |
| Net profit (loss) for the year | $ (1,925) | $ 3,670 |
| Other comprehensive loss | (3,520) | (10,083) |
| Total comprehensive loss | $ (5,445) | $ (6,413) |

The Corporation 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's share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2018 and 2017 were based on the associates' financial statements audited by auditors for the same years.

## 14. PROPERTY, PLANT AND EQUIPMENT

For the Year Ended December 31, 2018

| | Land | Buildings | Machinery and Equipment | Transportation Equipment | Other Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Balance at January 1, 2018 | $ 1,145,237 | $ 572,610 | $ 3,636,350 | $ 95,658 | $ 96,925 | $ 1,050,794 | $ 6,597,574 |
| Additions | - | 501,153 | 265,270 | 16,716 | 20,996 | 246,758 | 1,050,893 |
| Disposals | - | - | (8,266) | (1,015) | (608) | - | (9,889) |
| Balance at December 31, 2018 | $ 1,145,237 | $ 1,073,763 | $ 3,893,354 | $ 111,359 | $ 117,313 | $ 1,297,552 | $ 7,638,578 |
| Accumulated depreciation | | | | | | | |
| Balance at January 1, 2018 | $ - | $ 264,959 | $ 3,019,109 | $ 71,723 | $ 80,174 | $ - | $ 3,435,965 |
| Depreciation expense | - | 32,581 | 217,643 | 9,694 | 7,818 | - | 267,736 |
| Disposals | - | - | (8,236) | (1,014) | (608) | - | (9,858) |
| Balance at December 31, 2018 | $ - | $ 297,540 | $ 3,228,516 | $ 80,403 | $ 87,384 | $ - | $ 3,693,843 |
| Carrying amount at December 31, 2018 | $ 1,145,237 | $ 776,223 | $ 664,838 | $ 30,956 | $ 29,929 | $ 1,297,552 | $ 3,944,735 |

For the Year Ended December 31, 2017

| | Land | Buildings | Machinery and Equipment | Transportation Equipment | Other Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at January 1, 2017 | $ 1,145,237 | $ 467,277 | $ 3,560,818 | $ 92,462 | $ 95,090 | $ 371,085 | $ 5,731,969 |
| Additions | - | 105,421 | 88,846 | 3,311 | 2,105 | 679,709 | 879,392 |
| Disposals | - | (88) | (13,314) | (115) | (270) | - | (13,787) |
| Balance at December 31, 2017 | $ 1,145,237 | $ 572,610 | $ 3,636,350 | $ 95,658 | $ 96,925 | $ 1,050,794 | $ 6,597,574 |
| **Accumulated depreciation** | | | | | | | |
| Balance at January 1, 2017 | $ - | $ 237,889 | $ 2,816,586 | $ 62,843 | $ 71,914 | $ - | $ 3,189,232 |
| Depreciation expense | - | 27,157 | 215,431 | 8,993 | 8,530 | - | 260,111 |
| Disposals | - | (87) | (12,908) | (113) | (270) | - | (13,378) |
| Balance at December 31, 2017 | $ - | $ 264,959 | $ 3,019,109 | $ 71,723 | $ 80,174 | $ - | $ 3,435,965 |
| Carrying amount at December 31, 2017 | $ 1,145,237 | $ 307,651 | $ 617,241 | $ 23,935 | $ 16,751 | $ 1,050,794 | $ 3,161,609 |

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 |

## 15. INVESTMENT PROPERTIES

For the Year Ended December 31, 2018

| | Land | Buildings | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at January 1, 2018 | $ 572,338 | $ 47,665 | $ 620,003 |
| Transfer to non-current assets held for sale | (10,525) | - | (10,525) |
| Balance at December 31, 2018 | $ 561,813 | $ 47,665 | $ 609.478 |
| **Accumulated depreciation and impairment** | | | |
| Balance at January 1 and December 31, 2018 | $ 8,825 | $ 47,665 | $ 56,490 |
| Carrying amount at December 31, 2018 | $ 552,988 | $ - | $ 552,988 |

For the Year Ended December 31, 2017

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

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 at 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 were recognized as other financial assets - non-current with contra other non-current liabilities as of December 31, 2017.

Since the project was completed, 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 26 for the lease transactions conducted with related party.

## 16. BORROWINGS

a. Short-term borrowings

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Bank loans - interest at 0.79%-0.88% p.a., 0.7%-0.88% p.a. as of December 31, 2018 and 2017, respectively | $ 1,937,000 | $ 1,798,000 |
| 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 | 45,214 | 167,337 |
| | $ 1,982,214 | $ 1,965,337 |

b. Short-term bills payable

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Commercial papers - interest at 0.898% p.a. as of December 31, 2017 | $ - | $ 890,000 |
| Less: Unamortized discounts | - | - |
| | $ - | $ 890,000 |

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

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Unsecured loans | | |
| The amount of borrowings for circular use is NT$500,000 thousand, from May 2018 to May 2021, and interest at 0.9389% 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 | 500,000 | - |
| | $ 650,000 | $ - |

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 did not violate the provision in the second quarter, third quarter and for the year ended December 31, 2018.

## 17. OTHER PAYABLES

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Investments payable (Note 13) | $ 215,005 | $ 208,320 |
| Salaries and incentive bonus | 108,994 | 97,839 |
| 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 | 22,431 |
| Others (dividends, freight, commission and insurance, etc.) | 45,508 | 42,083 |
| | $ 541,752 | $ 483,850 |

## 18. 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.

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 standalone balance sheets in respect of the Corporation's 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 | (177,234) | (161,560) |
| Net defined benefit liability | $ 170,346 | $ 168,373 |
| | | |
| Current (included in other payables) | $ 1,745 | $ 1,611 |
| Non-current | 168,601 | 166,762 |
| | $ 170,346 | $ 168,373 |

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 |
|---|---|---|---|
| For the Year Ended December 31, 2018 | | | |
| Balance at January 1, 2018 | $ 329,933 | $ (161,560) | $ 168,373 |
| Service cost | | | |
| Current service cost | 6,933 | - | 6,933 |
| Interest expense (income) | 4,083 | (2,102) | 1,981 |
| Recognized in profit or loss | 11,016 | (2,102) | 8,914 |

(Continued)

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability |
|---|---|---|---|
| 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 | 11,977 | - | 11,977 |
| Recognized in other comprehensive income | 17,044 | (4,086) | 12,958 |
| Contributions from the employer | - | (19,899) | (19,899) |
| Benefits paid | (10,413) | 10,413 | - |
| | (10,413) | (9,486) | (19,899) |
| Balance at December 31, 2018 | $ 347,580 | $ (177,234) | $ 170,346 |
| For the Year Ended December 31, 2017 | | | |
| Balance at January 1, 2017 | $ 306,771 | $ (141,694) | $ 165,077 |
| Service cost | | | |
| Current service cost | 6,767 | - | 6,767 |
| Interest expense (income) | 4,218 | (2,076) | 2,142 |
| Recognized in profit or loss | 10,985 | (2,076) | 8,909 |
| 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 | 5,705 | - | 5,705 |
| Recognized in other comprehensive income | 12,177 | 670 | 12,847 |
| Contributions from the employer | - | (18,460) | (18,460) |
| Balance at December 31, 2017 | $ 329,933 | $ (161,560) | $ 168,373 |

(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 | 874 | 853 |
| | $ 8,914 | $ 8,909 |

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 | $ (10,136) | $ (9,725) |
| 0.25% decrease | $ 10,436 | $ 10,131 |
| Expected rate of salary increase | | |
| 0.25% increase | $ 10,069 | $ 9,780 |
| 0.25% decrease | $ (9,738) | $ (9,441) |

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 | $ 20,344 | $ 19,794 |
| The average duration of the defined benefit obligation | 12.1 years | 12.4 years |

## 19. EQUITY

a. Ordinary share capital

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Number of shares authorized (in thousands) | 300,000 | 300,000 |
| Shares authorized | $ 3,000,000 | $ 3,000,000 |
| Number of shares issued and fully paid (in thousands) | 236,904 | 236,904 |
| Shares issued | $ 2,369,044 | $ 2,369,044 |

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 | 545,575 | 523,709 |
| | $ 820,648 | $ 755,849 |

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 For the Year Ended December 31 | | Dividend Per Share (NT$) 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 | $ 4.3 | $ 4.5 |

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

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 | $ 5.3 |

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 the net assets of foreign operations | 22,868 | (58,429) |
| Share of exchange difference of subsidiaries and associates accounted for using the equity method | (4,732) | (3,472) |
| Balance, end of year | $ (44,737) | $ (62,873) |

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 losses on available-for-sale financial assets | (3,288) |
| Reclassified to profit or loss on disposal of available-for-sale financial assets | (178) |
| Share of unrealized gains and losses on available-for-sale financial assets of subsidiaries and associates accounted for using the equity method | (20,388) |
| Balance, end of year | $ (98,937) |

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 | (74,316) |
| Balance, beginning of year (IFRS 9) | (74,316) |
| Recognized during the year | |
| Unrealized gain and loss - equity instruments | (1,061) |
| Share from associates accounted for using the equity method | (15,480) |
| Reclassification adjustment | |
| Disposal of associates accounted for using the equity method | 1,313 |
| Other comprehensive income recognized in the year | (89,544) |
| Cumulative unrealized gain and loss of equity instruments transferred to retained earnings due to disposal | 371 |
| Balance, end of year | $ (89,173) |

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 | (71) |
| Balance, end of year | $ (173) |

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 | (173) |
| Balance, beginning of year (IFRS 9) | (173) |
| Share of fair value changes of hedging instruments of associates accounted for using the equity method | 173 |
| Balance, end of year | $ - |

e. 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

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

For the Year Ended December 31, 2017

| Beginning of Year | | Decrease During the Year | | | End of Year | | |
|---|---|---|---|---|---|---|---|
| Number of Shares Held | Carrying Amount | Number of Shares Held | Carrying Amount | Selling Price | Number of Shares Held | Carrying Amount | Market Price |
| 5,078 | $ 125,656 | - | $ - | $ - | 5,078 | $ 125,656 | $ 647,386 |

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.

## 20. OPERATING REVENUE

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Revenue from contracts with customers | | |
| Revenue from the sale of goods | $ 8,086,814 | $ 5,748,742 |
| Other Revenue | 105,899 | 64,795 |
| | $ 8,192,713 | $ 5,813,537 |

a. Contract balances

| | December 31, 2018 |
|---|---|
| Notes and accounts receivable (Note 10) | $ 739,349 |
| Contract liabilities | |
| Sale of goods | $ 68,707 |
| Other contract liabilities | 1,110 |
| | $ 69,817 |

The changes in the contract liability balances primarily result from the timing difference between the Corporation’s performance and the customer’s payment.

Revenue of the current year recognized from the beginning contract liability is as follows:

| From the beginning contract liability | For the Year Ended December 31, 2018 |
|---|---|
| Sale of goods | $ 68,820 |

b. Disaggregation of revenue

For the year ended December 31, 2018

| Type of goods or services | Chemicals Segment - Production and Sales | Chemicals Segment - Trading | Total |
|---|---|---|---|
| Sale of goods | $ 7,239,526 | $ 847,288 | $ 8,086,814 |
| Rendering of services | 93,703 | - | 93,703 |
| Others | 12,196 | - | 12,196 |
| | $ 7,345,425 | $ 847,288 | $ 8,192,713 |

## 21. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Reversal of accrued payables | $ 30,952 | $ - |
| Income from sale of scarp and wastes | 21,609 | 15,478 |
| Interest income | 16,654 | 6,554 |
| Rental income (Note 26) | 16,034 | 16,227 |
| Technical service income (Note 26) | 11,786 | 8,016 |
| Dividend income | 2,571 | 2,494 |
| Others | 14,155 | 9,211 |
| | $ 113,761 | $ 57,980 |

b. Other gains and losses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Gain on fair value change of financial assets designated as at FVTPL | $ - | $ 55,536 |
| Loss on fair value change of financial assets mandatorily at FVTPL | (25,682) | - |
| Gain on disposal of investment | - | 178 |
| Net foreign exchange gain (loss) | 29,609 | (57,996) |
| Soil remediation expenses | - | (43,677) |
| Gain (loss) on disposal of property, plant and equipment | 240 | (406) |
| Others | (481) | - |
| | $ 3,686 | $ (46,365) |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Foreign exchange gain | $ 43,920 | $ 12,834 |
| Foreign exchange loss | (14,311) | (70,830) |
| Net foreign exchange gain (loss) | $ 29,609 | $ (57,996) |

c. Interest expenses

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Interest on bank loans and loans from related parties (Note 26) | $ 20,704 | $ 11,109 |
| Interest on issuing short-term bills | 1,076 | 2,533 |
| | 21,780 | 13,642 |
| Less: Amounts included in the cost of qualifying assets | 13,600 | - |
| | $ 8,180 | $ 13,642 |

Information about capitalized interest is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Capitalized interest | $ 13,600 | $ - |
| Capitalization rate (%) | 0.79 | - |

d. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Property, plant and equipment | $ 267,736 | $ 260,111 |
| Long-term prepayments for lease | 7,084 | 6,046 |
| | $ 274,820 | $ 266,157 |
| An analysis of depreciation by function | | |
| Operating costs | $ 245,439 | $ 236,629 |
| Operating expenses | 22,297 | 23,482 |
| | $ 267,736 | $ 260,111 |
| An analysis of amortization by function | | |
| Operating costs | $ 7,084 | $ 6,046 |

e. Employee benefits

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Short-term employee benefits | | |
| Salaries | $ 412,198 | $ 378,299 |
| Labor and health insurance | 21,308 | 20,428 |
| Others | 14,257 | 10,009 |
| | 447,763 | 408,736 |
| Post-employment benefits (Note 18) | | |
| Defined contribution plans | 6,101 | 5,720 |
| Defined benefit plans | 8,914 | 8,909 |
| | 15,015 | 14,629 |
| | $ 462,778 | $ 423,365 |
| An analysis by function | | |
| Operating costs | $ 290,234 | $ 255,589 |
| Operating expenses | 172,544 | 167,776 |
| | $ 462,778 | $ 423,365 |

f. 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 year 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 standalone 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 standalone 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 standalone financial statements for 2017 and 2016 as follows:

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

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.

## 22. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Current tax | | |
| In respect of the current year | $ 374,247 | $ 145,456 |
| Adjustments for prior years | 12,422 | (8,276) |
| Income tax on unappropriated earrings | 186 | - |
| | 386,855 | 137,180 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Deferred tax | | |
| In respect of the current year | $ (26,077) | $ 18,678 |
| Adjustments for prior period | 4,306 | - |
| Changes in tax rates | (4,330) | - |
| | (26,101) | 18,678 |
| | $ 360,754 | $ 155,858 |

(Concluded)

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Profit before income tax | $ 1,869,200 | $ 1,315,694 |
| Income tax expense at the statutory rate | $ 373,840 | $ 223,668 |
| Tax-exempt income | - | (13,500) |
| Deductible income in determining taxable income | (25,432) | (46,034) |
| Tax credit of investment | (238) | - |
| Income tax on unappropriated earnings | 186 | - |
| Changes in tax rates | (4,330) | - |
| Adjustments for prior years | 16,728 | (8,276) |
| | $ 360,754 | $ 155,858 |

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%.

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 (loss): | | |
| Remeasurement on defined benefit pension plan | $ (4,627) | $ (2,184) |
| Changes in fair value of cash flow hedges | - | 21 |
| Fair value changes of hedging instruments in cash flow hedges transferred to adjust carrying amounts of hedged items | - | 496 |
| | $ (4,627) | $ (1,667) |

c. Current tax liabilities

| | December 31 2018 | December 31 2017 |
|---|---|---|
| Current tax liabilities | | |
| Income tax payable | $ 294,334 | $ 69,224 |

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 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| 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 | - | 7,533 | - | 7,533 |
| | $ 49,732 | $ 18,684 | $ 4,627 | $ 73,043 |
| Deferred tax liabilities | | | | |
| Temporary differences | | | | |
| Unrealized exchange gains, net | $ 2,398 | $ (1,142) | $ - | $ 1,256 |
| Foreign investment gain | 11,275 | (6,275) | - | 5,000 |
| | $ 13,673 | $ (7,417) | $ - | $ 6,256 |

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 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Temporary differences | | | | |
| Defined benefit pension plan | $ 28,063 | $ (1,624) | $ 2,184 | $ 28,623 |
| Unrealized losses 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) | - | - |

(Continued)

| | Balance, Beginning of Year | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Balance, End of Year |
|---|---|---|---|---|
| Foreign investment loss | $ 2,631 | $ (2,631) | $ - | $ - |
| Unrealized losses from cash flow hedges | 517 | - | (517) | - |
| | $ 57,495 | $ (9,430) | $ 1,667 | $ 49,732 |
| Deferred tax liabilities | | | | |
| Temporary differences | | | | |
| Unrealized exchange gains, net | $ 4,425 | $ (2,027) | $ - | $ 2,398 |
| Foreign investment gain | - | 11,275 | - | 11,275 |
| | $ 4,425 | $ 9,248 | $ - | $ 13,673 |

(Concluded)

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 income tax returns through 2016 have been assessed by the tax authorities.

## 23. 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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Net profit for the year | $ 1,508,446 | $ 1,159,836 |

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

| | For the Year Ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| Weighted average number of ordinary shares outstanding | 236,904 | 236,904 |
| Less: Number of treasury shares acquired by subsidiaries | 4,846 | 5,078 |
| Weighted average number of ordinary shares used in computation of basic earnings per share | 232,058 | 231,826 |

(Continued)

| | For the Year Ended December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Plus: Effect of dilutive potential ordinary shares - employees' compensation | 559 | 494 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 232,617 | 232,320 |

(Concluded)

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.

## 24. CAPITAL MANAGEMENT

The capital management of the Corporation 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 has not significantly changed over in 2018. The capital structure of the Corporation consists of net liabilities and equity without any need for complying with other external capital requirements, except for Note 16. The Corporation reviews 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 has invested in financial instruments as part of capital and fund management.

## 25. FINANCIAL INSTRUMENTS

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

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| December 31, 2018 | | | | |
| Financial assets measured at FVTPL | | | | |
| Mutual funds | $ 103,315 | $ - | $ - | $ 103,315 |
| Domestic listed shares | 2,147 | - | - | 2,147 |
| | $ 105,462 | $ - | $ - | $ 105,462 |
| Financial assets at FVTOCI | | | | |
| Domestic listed shares | $ 71,944 | $ - | $ - | $ 71,944 |
| December 31, 2017 | | | | |
| Financial assets measured at FVTPL | | | | |
| Mutual funds | $ 1,070,525 | $ - | $ - | $ 1,070,525 |
| Available-for-sale financial assets | | | | |
| Domestic listed shares | $ 99,845 | $ - | $ - | $ 99,845 |

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

b. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Financial assets | | |
| Measured at FVTPL | | |
| Designated as at FVTPL | $ - | $ 1,070,525 |
| Mandatorily at FVTPL | 105,462 | - |
| Available-for-sale financial assets | - | 99,845 |
| Financial assets at FVTOCI - Equity instruments | 71,944 | - |
| Loans and receivables 1) | - | 1,334,426 |
| Financial assets at amortized cost 2) | 2,046,945 | - |
| Financial liabilities | | |
| Measured at amortized cost 3) | 3,522,421 | 3,637,744 |

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, other financial assets (including non-current), 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, 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.

c. Financial risk management objectives and policies

The Corporation’s major financial instruments include equity and debt investments, accounts receivable, accounts payable, short-term and long-term borrowings and short-term bills payable. The Corporation’s 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 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 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’s 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 did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

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

a) Foreign currency risk

The Corporation 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's foreign currency denominated monetary assets and monetary liabilities at the balance sheet date are set out in Note 28.

Sensitivity analysis

The Corporation was mainly exposed to the currency USD. The following table details the Corporation's sensitivity to a 3% increase and decrease in the functional currency against the relevant foreign currency. 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 when the functional currency against the USD appreciated by 3%. Scenario 2 in the following table indicates the profit or loss of the Corporation when the functional currency against the USD depreciated by 3%.

| | **USD Effect (Note)** | |
|---|---|---|
| | **For the Year Ended December 31** | |
| | **2018** | **2017** |
| Profit or loss in Scenario 1 | $ (22,933) | $ (13,535) |
| Profit or loss in Scenario 2 | 22,933 | 13,535 |

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

The exchange rate sensitivity of the Corporation in 2018 was increased mainly due to the increase of USD assets. The management believes that the sensitivity analysis is not representative of the inherent risk of exchange rate since the foreign currency risk exposure at balance sheet date does not reflect the interim risk exposure; also, the sales denominated in USD will be affected by customer orders and shipping schedules.

b) Interest rate risk

The Corporation mainly consists of short-term and long-term borrowings, parts of long-term borrowing rate was fixed. Therefore, there is no interest rate risk to the Corporation.

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

| | **December 31** | |
|---|---|---|
| | **2018** | **2017** |
| Cash flow interest rate risk | | |
| Financial assets | $ 176,229 | $ 313,686 |
| Financial liabilities | 150,000 | - |

c) Other price risk

The Corporation are exposed to equity price risk through its investments in listed shares and mutual funds the risk is managed; by maintaining a portfolio with of investments with different risks. The equity price risk of the Corporation 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 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$6,328 thousand and NT$64,232 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$4,317 thousand and NT$5,991 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. As at the balance sheet date, the Corporation's maximum exposure to credit risk is the carrying amount of accounts receivables on the standalone balance sheets. The main customers of the Corporation 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 the Corporation.

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

| | December 31 | |
|---|---|---|
| | **2018** | **2017** |
| Customer A | $ 249,794 | $ 63,703 |
| Customer B | 76,772 | 76,954 |
| Customer C | - | 91,644 |
| | $ 326,566 | $ 232,301 |

3) Liquidity risk

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

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

The Corporation relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Corporation had available unutilized short-term bank loan facilities in the amounts of NT$5.3 billion and NT$3.0 billion, respectively.

## 26. TRANSACTIONS WITH RELATED PARTIES

| Related Party Name | Relationship with the Corporation |
|---|---|
| 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. (LAMT) | 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 |
| Ever Wealthy International Corporation | Subsidiaries |
| Ever Glory International Co., Ltd. | Subsidiaries |
| Formosa Ha Tinh CSCC (Cayman) International Limited (CSCCC) | Subsidiaries |
| Changzhou China Steel New Materials Technology Co., Ltd. (CCSNM) | Subsidiaries |
| 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 |
| 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 | Fellow subsidiaries |

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

a. Operating revenue

| Account Items | Related Parties Types/Name | For the Year Ended December 31 2018 | 2017 |
|---|---|---|---|
| Revenue from sales of goods | The key management of the Corporation | | |
| | CSRC | $ 892,054 | $ 1,011,566 |
| | The subsidiary of the key management of the Corporation | 404,436 | 6,461 |

(Continued)

| Account Items | Related Parties Types/Name | For the Year Ended December 31 2018 | 2017 |
|---|---|---|---|
| | Subsidiaries | $ 242,604 | $ 138,736 |
| | Parent entity | 16,968 | 15,554 |
| | Fellow subsidiaries | 9,358 | 12,331 |
| | | $ 1,565,420 | $ 1,184,648 |
| Revenue from the rendering of services | Parent entity | $ 93,254 | $ 64,533 |

(Concluded)

Part of sales to the parent entity, subsidiaries 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. The credit term have no significant difference except for to CCSNM was 270 days.

b. Purchase of goods

| Related Parties Types/Name | For the Year Ended December 31 2018 | 2017 |
|---|---|---|
| Parent entity | | |
| CSC | $ 2,509,963 | $ 1,992,196 |
| Subsidiaries | | |
| CSCCC | 915,512 | 175,643 |
| Others | 78,658 | 25,902 |
| | 994,170 | 201,545 |
| Fellow subsidiaries | | |
| DSC | 980,628 | 866,532 |
| Others | 1,195 | 2,226 |
| | 981,823 | 868,758 |
| | $ 4,485,956 | $ 3,062,499 |

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 a fellow subsidiary 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 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. The Corporation and a subsidiary also signed a batch purchase contract which is at cost plus an additional percentage. The purchases referred to in this paragraph were paid after acceptance or open account 270 days.

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.

c. Receivables from related parties

| Account Items | Related Parties Types/Name | December 31 2018 | December 31 2017 |
|---|---|---|---|
| Accounts receivable | Parent entity | $ 11,157 | $ 8,748 |
| | Subsidiaries | | |
| | CCSNM | 249,794 | 63,703 |
| | The key management of the corporation | | |
| | CSRC | - | 91,644 |
| | The subsidiary of the key management of the corporation | | |
| | LAMT | 45,543 | - |
| | Fellow subsidiaries | 2,278 | 3,297 |
| | | $ 308,772 | $ 167,392 |
| Other receivables | Parent entity | | |
| | CSC | $ 123,048 | $ 81,347 |
| | Subsidiaries | 20,158 | 6,710 |
| | Fellow subsidiaries | 794 | 670 |
| | | $ 144,000 | $ 88,727 |

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 party

| Account Items | Related Parties Types/Name | December 31 2018 | December 31 2017 |
|---|---|---|---|
| Accounts payable | Parent entity | | |
| | CSC | $ 234,541 | $ 228,663 |
| | Subsidiaries | | |
| | CSCCC | 70,942 | 25,238 |
| | Others | 6,388 | - |
| | | 77,330 | 25,238 |
| | Fellow subsidiaries | 264 | 148 |
| | | $ 312,135 | $ 254,049 |
| Other payables | Parent entity | $ 12,134 | $ 14,084 |
| | Subsidiaries | | |
| | CSCCC | 215,005 | 208,320 |
| | The key management of the corporation | 2,687 | 2,062 |
| | Supervisors of the Corporation | 4,031 | 3,093 |
| | Fellow subsidiaries | 1,062 | 309 |
| | | $ 234,919 | $ 227,868 |

The outstanding accounts payable to related parties were unsecured.

e. Acquisitions of property, plant and equipment

| | Purchase Price | |
|---|---|---|
| | **For the Year Ended December 31** | |
| **Related Parties Types/Name** | **2018** | **2017** |
| Parent entity | $ 38,573 | $ 9,500 |
| Fellow Subsidiaries | | |
| CSSC | 21,169 | 127,860 |
| Others | 46,652 | 116,288 |
| | 67,821 | 244,148 |
| | $ 106,394 | $ 253,648 |

f. Loans from related parties

The Corporation's borrowing from subsidiaries in 2016 had been repaid in June 2017. The related interest expense was NT$213 thousand.

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 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 subsidiaries had signed a land and warehouse lease contract for a period up to 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 15, 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) Technical service revenue

The Corporation signed technical service contract with its subsidiaries. Technical service revenue amounted to NT$11,786 thousand and NT$8,016 thousand for the years ended December 31, 2018 and 2017, respectively.

7) Revenue from sale of prototype trial fabrication

The Corporation's revenue from sale of trial produce to its subsidiary - CCSNM in 2018 was NT$63,112 thousand, which was recorded under the deduction of construction in progress. The selling price of Corporation to its subsidiaries had no similar transaction available for comparison. The credit terms was 270 days.

8) Remuneration of directors and supervisors

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

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 | 968 | 965 |
| | $ 50,906 | $ 49,108 |

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.

## 27. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's 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$797,101 thousand; within which about NT$101,088 thousand were not yet completed.

## 28. EXCHANGE RATE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES DENOMINATED IN FOREIGN CURRENCY

The following information was aggregated by the foreign currencies other than functional currencies of the Corporation 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:

| December 31, 2018 | Foreign Currencies (In Thousands) | Exchange Rate | | Carrying Amount (In Thousands of New Taiwan Dollars) |
|---|---|---|---|---|
| Monetary financial assets | | | | |
| USD | $ 34,492 | 30.715 | (USD:NTD) | $ 1,059,437 |
| RMB | 58,036 | 4.472 | (RMB:NTD) | 259,538 |
| Investment accounted for using equity method | | | | |
| USD | 23,310 | 30.715 | (USD:NTD) | 715,976 |
| Monetary financial liabilities | | | | |
| USD | 9,605 | 30.715 | (USD:NTD) | 295,007 |

(Continued)

| December 31, 2017 | Foreign Currencies (In Thousands) | Exchange Rate | | Carrying Amount (In Thousands of New Taiwan Dollars) |
|---|---|---|---|---|
| Monetary financial assets | | | | |
| USD | $ 24,316 | 29.76 | (USD:NTD) | $ 723,631 |
| RMB | 19,687 | 4.565 | (RMB:NTD) | 89,871 |
| Non-monetary financial assets | | | | |
| Designated as at FVTPL | | | | |
| USD | 35,054 | 29.76 | (USD:NTD) | 1,043,199 |
| RMB | 5,986 | 4.565 | (RMB:NTD) | 27,326 |
| Investment accounted for using equity method | | | | |
| USD | 25,594 | 29.76 | (USD:NTD) | 761,685 |
| Monetary financial liabilities | | | | |
| USD | 9,156 | 29.76 | (USD:NTD) | 272,473 |
| RMB | 1,267 | 4.565 | (RMB:NTD) | 5,786 |

(Concluded)

For the years ended December 31, 2018 and 2017, realized and unrealized net foreign exchange gains and losses were gain NT$29,609 thousand and loss NT$57,996 thousand. It is impractical to disclose net foreign exchange gains or losses by each significant foreign currency due to the variety of the foreign currency transaction and functional currencies of the Corporation.

## 29. SEGMENT INFORMATION

Disclosure of the segment information in standalone financial statements is waived.