

**CHINA PETROCHEMICAL DEVELOPMENT
CORPORATION AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

To the Board of Directors of China Petrochemical Development Corporation:

Opinion

We have audited the consolidated financial statements of China Petrochemical Development Corporation ("CPDC") and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2018 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained, is sufficient and appropriate to provide a basis of our opinion.

Emphasis of Matter

As described in Notes 6(j) and 6(p) of the notes to the consolidated financial statements, the Tainan City Government and Environment Protection Administration, the Executive Yuan publicly announced that a portion of the land at the Anshun plant was polluted and designated it as under pollution control. CPDC submitted for approval a remediation project proposal to the Tainan City Government in accordance with the related regulations and accrued relevant remediation project expenses in June 2008. This remediation project proposal was approved in May 2009. CPDC also performed related remediation work according to the remediation project proposal. The first phase of remediation project was completed in September 2014. The management of CPDC is expecting that the second phase of remediation project will be completed in the next decade. Likewise, CPDC has accrued relevant remediation project expenses for the second phase of remediation project in December 2014. CPDC still has a dissenting view on the government perception about the condition of pollution and CPDC is seeking a way to define its responsibilities. Our opinion is not modified in respect of this matter.

Other Matter

CPDC has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion with emphasis of matter and other matters paragraphs.

We have not audited certain investments, which were accounted for under the equity method. The financial statements as of and for the years then ended December 31, 2019 and 2018 of those investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts for the equity method investees were based solely on the reports of other auditors. These investments accounted for under the equity method represented 0.95% and 1.05% of consolidated total assets as of December 31, 2019 and 2018, respectively. The related shares of investment income from these investees including subsidiaries, associates and joint ventures accounted for using equity method represented (0.06)% and (2.21)% of consolidated net income before income tax for the years ended December 31, 2019 and 2018, respectively.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as of and for the year then ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition

Operating revenue is the most important source of cash flow for the Group, and it is a significant risk accounting subject in the consolidated financial statements. So revenue recognition is one of the key audit matters for our audit. Please refer to Note 4 “Revenue Recognition”, Note 6(v) “Revenue from contracts with customers” and Note 6(w) “Revenue” in the consolidated financial statements.

How the matter was addressed in our audit

Our key audit procedures included:

- Testing the Group’s internal accounting controls surrounding revenue recognition and key manual and systems-based controls in the order-to-cash transaction cycle. In addition, checking and reconciling the sales data recorded between the sales systems and general ledger; selecting samples to assess whether appropriate revenue recognition policies are applied through comparison with accounting standards;
- Analyzed and compared the sales amounts and volumes for the major customers of the Group. Based on samples selected, vouched significant transactions from both internal and external documents, to verify the authenticity of the transactions.

2. Assessment of the fair value of investment property

The book value of investment property of the Group represented 38% of consolidated total assets as of December 31, 2019, which is deemed to be significant. The Group evaluates the fair value of investment property according to IAS40, and re-measure such fair value on the reporting date. Because the valuation of investment property at fair value demands significant professional judgments, the assessment of fair value of investment property is considered one of the key audit matters. Please refer to Note 4 “Investment Property”, Note 5 “Significant Accounting Judgments, Estimation, Assumptions, and Sources of Estimation Uncertainty”, and Note 6(j) “Investment Property” of the consolidated financial statements for details about fair value information on investment property.

How the matter was addressed in our audit

Our key audit procedures included:

- Obtain from the Group management the real estate appraisal report on investment property;
- Engage another appraiser to review such real estate appraisal report, and to evaluate the propriety of the evaluation method used, and the reasonableness of its main assumptions or input values (ex. discount rate and final rate of return);
- Evaluate the propriety of the disclosure of fair value of investment property.

3. Impairment assessment of property, plant, and equipment

The book value of property, plant, and equipment of the Group represented 21% of consolidated total assets as of December 31, 2019, which is deemed to be significant. The overall economic trend, market competition and fluctuations in the price of petroleum and petrochemical products may affect the future operation of the Group, and also affect the estimated economic benefits and recoverable amounts of these assets that the management of the Group may estimate and determine in the future of the cash generating unit (“CGU”) of the assets, and to evaluate whether there are signs of impairment. The recoverable amounts of these assets have been determined based on the discounted cash flows forecasted by the Group management which involved significant uncertainties and professional judgments. Therefore, we consider the assessment for impairment of property, plant, and equipment as one of the key audit matters for our audit. Please refer to Note 4 “Impairment of non derivative financial assets”, Note 5 “Significant Accounting Assumptions and Judgments, and Major Sources of Estimation Uncertainty”, and Note 6(h) “Property, plant and Equipment” of the financial statements for details of the information about impairment assessment on property, plant, and equipment.

How the matter was addressed in our audit

Our key audit procedures included:

- Obtain from the Group management the results of their valuation of fixed assets and understand the significant assumptions used in their valuation model.
- Review both the calculations of the value in use and the present value of the discounted cash flows forecasted. Evaluate the CGU, and external and internal impairment indicators identified by the Group management, and ascertain that all fixed assets requiring annual impairment test are covered in the assessment made by management. Likewise, evaluate the reasonableness of the method used in measuring the recoverable amount of the assets (including the realization on the financial forecast, the calculation of recoverable amount and the assumptions considered for the cash flows forecast).

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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 Chen Mei Fang and Chung Tan Tan.

KPMG

Taipei, Taiwan (Republic of China)
March 27, 2020

Notes to Readers

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

The independent auditors' audit report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018				December 31, 2019		December 31, 2018	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets						Liabilities and Equity					
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (notes 4 and 6(a))	\$ 9,116,253	9	13,469,938	15	2100	Short-term loans (note 6(l))	\$ 3,484,148	4	913,732	1
1110	Current financial assets at fair value through profit or loss (notes 4 and 6(b))	783,180	1	1,300,897	1	2130	Current contract liabilities (note 6(v))	88,263	-	5,578	-
1120	Current financial assets at fair value through other comprehensive income (notes 4 and 6(c))	321,647	-	251,629	-	2170	Accounts payable	1,316,369	1	1,848,774	2
1170	Notes and accounts receivable, net (notes 4 and 6(d))	1,646,764	2	2,575,850	3	2200	Other payables (note 7)	1,739,977	2	2,973,010	3
1180	Accounts receivable related parties, net (notes 4, 6(d) and 7)	57,764	-	60,233	-	2230	Current tax liabilities (notes 4 and 6(s))	86,144	-	352,910	-
1200	Other receivables (notes 4, 6(d) and 7)	253,779	-	118,382	-	2250	Provisions-current (notes 4, 6(p) and 6(r))	157,562	-	480,171	1
130X	Inventories (notes 4 and 6(e))	9,702,458	10	2,243,840	3	2280	Lease liabilities-current (notes 4 and 6(o))	49,911	-	-	-
1410	Prepayments	1,495,905	2	1,143,583	1	2320	Long-term liabilities-current portion (notes 4 and 6(m))	1,762,130	2	863,801	1
1470	Other current assets	609,223	2	458,235	1	2399	Other current liabilities, others	57,009	-	50,079	-
	Total current assets	<u>23,986,973</u>	<u>26</u>	<u>21,622,587</u>	<u>24</u>		Total current liabilities	<u>8,741,513</u>	<u>9</u>	<u>7,488,055</u>	<u>8</u>
Non-current assets:						Non-Current liabilities:					
1510	Non-current financial assets at fair value through profit or loss (note 4 and 6(b))	9,942,994	10	4,861,274	5	2540	Long-term bank loans (note 6(m))	6,721,783	7	3,810,129	5
1517	Non-current financial assets at fair value through other comprehensive income (note 4 and 6(c))	2,038,393	2	1,978,339	2	2550	Provisions-non-current (notes 4, 6(p) and (r))	1,967,230	2	1,992,284	2
1551	Investments accounted for using equity method (notes 4 and 6(f))	2,318,796	2	2,405,411	3	2570	Deferred tax liabilities (notes 4 and 6(s))	7,020,975	7	8,758,989	10
1600	Property, plant and equipment (notes 4 and 6(h))	20,275,279	21	19,501,534	22	2580	Lease liabilities-non-current (note 6(o))	203,332	-	-	-
1755	Right-of-use assets (notes 4 and 6(i))	848,504	1	-	-	2611	Long-term bills payable (note 6(n))	4,494,177	5	349,729	-
1760	Investment property, net (notes 4 and 6(j))	36,719,706	38	38,350,359	43	2670	Other non-current liabilities, others	125,616	-	115,014	-
1780	Intangible assets (notes 4 and 6(k))	177,464	-	188,061	-		Total non-current liabilities	<u>20,533,113</u>	<u>21</u>	<u>15,026,145</u>	<u>17</u>
1840	Deferred income tax assets (notes 4 and 6(s))	11,023	-	11,023	-		Total liabilities	<u>29,274,626</u>	<u>30</u>	<u>22,514,200</u>	<u>25</u>
1900	Other non-current assets (note 8)	149,358	-	786,366	1		Equity attributable to owners of parent:				
	Total non-current assets	<u>72,481,517</u>	<u>74</u>	<u>68,082,367</u>	<u>76</u>		Share capital				
						3110	Common stock (note 6(t))	28,348,502	30	26,998,573	30
						3200	Capital surplus (note 6(t))	1,286,700	1	1,260,386	1
							Retained earnings: (note 6(t))				
						3310	Legal reserve	2,137,330	2	1,708,303	2
						3320	Special reserve	35,490,262	37	33,521,575	38
						3350	Unappropriated earnings	1,779,147	2	5,144,764	6
								<u>39,406,739</u>	<u>41</u>	<u>40,374,642</u>	<u>46</u>
							Others (notes 4 and 6(t))				
						3410	Exchange differences arising on translation of foreign operations	(804,515)	(1)	(488,212)	(1)
						3420	Unrealised gains or loss on financial assets at fair value through other comprehensive income	(1,120,657)	(1)	(1,248,499)	(1)
								<u>(1,925,172)</u>	<u>(2)</u>	<u>(1,736,711)</u>	<u>(2)</u>
							Total equity attributable to shareholders of the parent:	<u>67,116,769</u>	<u>70</u>	<u>66,896,890</u>	<u>75</u>
						36XX	Non-controlling interests	77,095	-	293,864	-
							Total equity	<u>67,193,864</u>	<u>70</u>	<u>67,190,754</u>	<u>75</u>
Total assets		<u><u>\$ 96,468,490</u></u>	<u><u>100</u></u>	<u><u>89,704,954</u></u>	<u><u>100</u></u>		Total liabilities and equity	<u><u>\$ 96,468,490</u></u>	<u><u>100</u></u>	<u><u>89,704,954</u></u>	<u><u>100</u></u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2019		2018	
		Amount	%	Amount	%
4000	Operating revenue (notes 4 and 6(w))	\$ 29,624,094	100	38,503,121	100
5000	Operating costs (notes 4 and 6(e))	27,996,514	95	33,326,959	87
		1,627,580	5	5,176,162	13
5920	Add:Realized loss on intercompany transactions	-	-	(3)	-
	Gross profit	1,627,580	5	5,176,159	13
	Operating expenses:				
6100	Selling expenses	748,690	3	794,518	2
6200	Administrative expenses	886,255	3	971,123	2
6300	Research and development expenses	401,655	1	335,436	1
6450	Impairment loss determined in accordance with IFRS9	-	-	-	-
		2,036,600	7	2,101,077	5
	Profit from operations	(409,020)	(2)	3,075,082	8
	Non-operating income and expenses:				
7010	Other income (notes 6(y) and 7)	720,200	2	1,044,485	3
7590	Other gains and losses (note 6(y))	(31,271)	-	(493,935)	(1)
7050	Finance costs (notes 6(p) and (y))	(140,459)	-	(79,516)	-
7060	Shares of profit (loss) of associates and joint ventures accounted for using equity method, net (notes 4 and 6(f))	494,301	2	887,970	2
7235	Gains on financial assets at fair value through profit or loss (notes 4 and 6(b))	4,130,817	14	242,864	-
7673	Impairment loss on property, plant and equipment (notes 4 and 6(h))	(2,901,096)	(10)	-	-
	Total non-operating income and expenses	2,272,492	8	1,601,868	4
	Income before income tax	1,863,472	6	4,676,950	12
7950	Less: Income tax expenses (notes 4 and 6(s))	129,837	-	395,955	1
	Net income	1,733,635	6	4,280,995	11
8300	Other comprehensive income (loss):				
8310	Items that may not be reclassified subsequently to profit or loss:				
8311	Gains (losses) on remeasurements of defined benefit plans	(12,224)	-	16,731	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	130,071	-	(372,169)	(1)
8320	Shares of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	5,719	-	(70,122)	-
8349	Allocation of income tax to the above items	-	-	-	-
		123,566	-	(425,560)	(1)
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences arising on translation of foreign operations	(317,231)	(1)	(96,052)	-
8399	Allocation of income tax to the above items	-	-	-	-
		(317,231)	(1)	(96,052)	-
8300	Other comprehensive (loss) income, net	(193,665)	(1)	(521,612)	(1)
8500	Total comprehensive income	\$ 1,539,970	5	3,759,383	10
	Net income attributable to:				
8610	Shareholders of the parent	\$ 1,738,449	6	4,290,269	11
8620	Non-controlling interests	(4,814)	-	(9,274)	-
		\$ 1,733,635	6	4,280,995	11
	Comprehensive (loss) income attributable to:				
8710	Shareholders of the parent	\$ 1,543,494	5	3,763,808	10
8720	Non-controlling interests	(3,524)	-	(4,425)	-
		\$ 1,539,970	5	3,759,383	10
	Earnings per share (notes 4 and 6(u))				
9750	Basic earnings per share	\$ 0.61		1.59	
9750	Basic earnings per share-retrospective			1.51	
9850	Diluted earnings per share	\$ 0.61		1.58	
9850	Diluted earnings per share-retrospective			1.51	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent										
	Share capital					Total other equity interest					
	Retained earnings					Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income					
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total equity attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2018	\$ 26,998,573	1,260,386	1,099,137	28,023,386	6,107,355	(392,378)	-	(788,734)	62,307,725	240,734	62,548,459
Effects of retrospective application	-	-	-	-	844,326	-	(807,702)	788,734	825,358	41,182	866,540
Balance at January 1, 2018 after adjustments	<u>26,998,573</u>	<u>1,260,386</u>	<u>1,099,137</u>	<u>28,023,386</u>	<u>6,951,681</u>	<u>(392,378)</u>	<u>(807,702)</u>	<u>-</u>	<u>63,133,083</u>	<u>281,916</u>	<u>63,414,999</u>
Net income for the year ended December 31, 2018	-	-	-	-	4,290,269	-	-	-	4,290,269	(9,274)	4,280,995
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	10,170	(95,834)	(440,797)	-	(526,461)	4,849	(521,612)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	4,300,439	(95,834)	(440,797)	-	3,763,808	(4,425)	3,759,383
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	609,166	-	(609,166)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	5,498,189	(5,498,189)	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	16,373	16,373
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Balance at December 31, 2018	26,998,573	1,260,386	1,708,303	33,521,575	5,144,764	(488,212)	(1,248,499)	-	66,896,890	293,864	67,190,754
Net income for the year ended December 31, 2019	-	-	-	-	1,738,449	-	-	-	1,738,449	(4,814)	1,733,635
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	(6,084)	(316,303)	127,432	-	(194,955)	1,290	(193,665)
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	1,732,365	(316,303)	127,432	-	1,543,494	(3,524)	1,539,970
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	429,027	-	(429,027)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	1,968,687	(1,968,687)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(1,349,929)	-	-	-	(1,349,929)	-	(1,349,929)
Stock dividends of ordinary share	1,349,929	-	-	-	(1,349,929)	-	-	-	-	-	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	26,314	-	-	-	-	-	-	26,314	-	26,314
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(213,245)	(213,245)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	-	410	-	410	-	410
Balance at December 31, 2019	<u>\$ 28,348,502</u>	<u>1,286,700</u>	<u>2,137,330</u>	<u>35,490,262</u>	<u>1,779,557</u>	<u>(804,515)</u>	<u>(1,120,657)</u>	<u>-</u>	<u>67,117,179</u>	<u>77,095</u>	<u>67,194,274</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2019	2018
Cash flows from (used in) operating activities:		
Income before income tax	\$ 1,863,472	4,676,950
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	1,435,252	1,364,687
Amortization expense	10,002	19,536
Net gain on financial assets or liabilities at fair value through profit or loss	(4,130,817)	(242,864)
Interest expense	140,459	79,516
Interest income	(123,028)	(197,636)
Dividend income	(303,466)	-
Share of profit of associates and joint ventures accounted for using equity method	(494,301)	(887,970)
Loss on disposal of property, plan and equipment	2,560	6,998
Gain on disposal of investments	-	(6,094)
Impairment loss on property, plan and equipment	2,901,096	-
(Gain on reversal of) impairment loss on non-financial assets	(78,554)	150,541
Realized loss (profit) on from sales	-	3
Gain on lease modification	(5)	-
Gain on fair value adjustment of investment property	(112,421)	(119,574)
Total adjustments to reconcile profit (loss)	(753,223)	167,143
Changes in operating assets and liabilities:		
Decrease in accounts receivable	929,086	903,773
Decrease in accounts receivable due from related parties	2,469	7,751
Increase in other receivable	(140,146)	(78,301)
Increase in inventories	(7,365,613)	(102,860)
Increase in prepayments	(352,190)	(287,483)
Increase in other current assets	(149,481)	(25,924)
Total changes in operating assets	(7,075,875)	416,956
Increase in contract liabilities	82,686	5,578
Decrease in accounts payable	(532,405)	(111,211)
(Decrease) increase in other payable	(1,250,720)	1,694,851
Decrease in provisions	(347,663)	(139,236)
Increase (decrease) in other current liabilities	6,923	(306,551)
Total changes in operating liabilities	(2,041,179)	1,143,431
Total changes in operating assets and liabilities	(9,117,054)	1,560,387
Total adjustments	(9,870,277)	1,727,530
Cash (outflow) inflow generated from operations	(8,006,805)	6,404,480
Interest received	135,730	203,318
Interest paid	(136,482)	(77,134)
Income taxes paid	(395,955)	(253,419)
Net cash flows from (used in) operating activities	(8,403,512)	6,277,245
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through profit or loss	(3,761,066)	(3,267,115)
Proceeds from disposal of financial assets at fair value through profit or loss	3,321,452	1,846,810
Acquisition of investments accounted for using equity method	(480,000)	-
Acquisition of property, plant and equipment	(5,299,416)	(4,046,481)
Proceeds from disposal of property, plant and equipment	12,890	14,410
Acquisition of intangible assets	(6,681)	(188,697)
Cash inflows due to combination	41,733	-
Increase in other non-current assets	(854)	(108,908)
Dividends received	1,292,178	653,668
Decrease in deferred tax liabilities	(2,288)	-
Net cash flows from (used in) investing activities	(4,882,052)	(5,096,313)
Cash flows from (used in) financing activities:		
Increase in short-term loans	9,589,034	3,349,694
Decrease in short-term loans	(7,009,177)	(2,680,470)
Proceeds from long-term debt	8,006,120	3,823,144
Repayments of long-term debt	(4,108,757)	(2,560,000)
Increase in long-term bills payable	5,850,000	50,000
Decrease in long-term bills payable	(1,700,000)	-
Payment of lease liabilities	(56,778)	-
Increase in other non-current liabilities	10,602	37,679
Cash dividends paid	(1,349,929)	-
Change in non-controlling interests	(186,931)	16,373
Interest paid for lease liabilities	(4,875)	-
Net cash flows from (used in) financing activities	9,039,309	2,036,420
Effect of exchange rate changes on cash and cash equivalents	(107,430)	141,091
Net (decrease) increase in cash and cash equivalents	(4,353,685)	3,358,443
Cash and cash equivalents at beginning of period	13,469,938	10,111,495
Cash and cash equivalents at end of period	\$ 9,116,253	13,469,938

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

China Petrochemical Development Corporation (hereinafter referred to as the “Company”) was founded on July 8, 1969 under the approval of Ministry of Economic Affairs, R.O.C. Its registered address is 11th floor, No.12, Dongxing Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.). The Company migrated to No.1, Jingjian Rd., Dashe Dist., Kaohsiung City 815, Taiwan (R.O.C.) on July 18, 2016. The Company and its subsidiaries primarily engage in the production of petroleum, alkali-chlorine, phosphoric acid and other petrochemical products and by-products and the storage, transportation, purchase and sale of these products, related chemicals and their raw materials. The primary products are acrylonitrile, caprolactam, acetic acid and nylon.

(2) Approval date and procedures of the consolidated financial statements:

The accompanying financial statements were authorized for issue by the Board of Directors on March 27, 2020.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

- (i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(m).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$298,815 thousand of right-of-use assets and \$298,815 thousand of lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.80%. For the purpose of applying to IFRS 16, the Group reclassified right of use of land from Other Non-Current Assets to Right-of-Use Assets, which amounted for \$682,373 thousand.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the balance sheets at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 307,302
Recognition exemption for:	
short-term leases	(9,132)
leases of low-value assets	(80)
Extension and termination options reasonably certain to be exercised	55,200
	<u>353,290</u>
Discounted using the incremental borrowing rate at January 1, 2019	298,815
Finance lease liabilities recognized as at December 31, 2018	<u>-</u>
Lease liabilities recognized at January 1, 2019	<u><u>\$ 298,815</u></u>

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Those which may be relevant to the Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The significant accounting policies, which have been applied consistently to all periods presented in these financial statements, except when otherwise indicated in note 3, are as follows:

- (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of Preparation

(i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- 1) Financial instruments at fair value through profit or loss are measured at fair value (including derivative financial instruments);
- 2) Financial assets at fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured at fair value of the plan assets less the present value of the defined benefit obligation (please see note 6(r));
- 4) Investment properties are measured at fair value.

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollar (NTD), which is the Company's functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(c) Basis of Consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries.

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of subsidiaries were properly adjusted to be consistent with the accounting policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements were as follows :

Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
The Company	Tsou Seen Chemical Industries Corporation(TSCIC)	Manufacture of chemical products and their derivatives of phosphoric acid and fertilizer storage, transport, purchase, marketing business	100.00 %	100.00 %	TSCIC was established on June 16, 1998. Due to the business combination on August 1, 2018, CIC became a dissolved company and Tsou Seen became a surviving company. As of December 31, 2019 and 2018, TSCIC's actual paid-in capital amounted to \$960,000 thousand.
The Company	CPDC GreenTechnology Corp.(CPDC GT)(Original name:CPDC Engineering Co., Ltd.)	Water treatment works, plumbing works, apparatus and instrument installation work, refrigeration and air conditioning engineering and tank car repair and other services	100.00 %	100.00 %	CPDC GT (Original name : CPDC EC) was established on May 31, 1999. As of December 31, 2019 and 2018, CPDC GT's actual paid-in capital amounted to \$150,000 thousand.
The Company	CPDC Investment (BVI) Co Ltd. (CPDC (BVI))	Holding company	100.00 %	100.00 %	CPDC (BVI) was established on January 9, 1998, registered in the British Virgin Islands, and is an international investment company. As of December 31, 2019 and 2018, CPDC (BVI)'s actual paid-in capital amounted to USD26,580 thousand.
The Company	BES Twin Towers Development Co., Ltd. (BES Twin Towers)	Real estate investment and development	100.00 %	90.87 %	BES Twin Towers was established on March 1, 2011. The Company purchased its shares of non-controlling interest on March 12, 2019, resulting in its shareholding ratio to be 100%. It increased its capital through the Company amounting to \$1,136,705 thousand on January 30, 2019, and increased its capital by retained earnings amounting to \$343,304 thousand on June 24, 2019. As of December 31, 2019 and 2018, BES Twin Towers's actual paid-in capital amounted to \$3,681,009 thousand and \$2,201,000 thousand, respectively.
The Company	Unichem Development Limited (UDL)	Holding company	100.00 %	100.00 %	UDL was established on May 20, 2008. As of December 31, 2019 and 2018, UDL's actual paid-in capital amounted to USD255,368 thousand and USD191,478 thousand, respectively.
The Company	Jiangsu Weiming Petrochemical Corporation (Weiming)	Petrochemical supporting facility construction	0.49 %	0.77 %	Weiming was established on May 16, 2013. It increased its capital through UDL amounting to CNY96,000 thousand, CNY100,000 thousand, CNY100,000 thousand, CNY147,000 thousand and CNY130,000 thousand on March 12, June 27, September 24, December 25, 2019, and June 25, 2018, respectively. The said amounts were verified on March 13, July 2, September 26, December 26, 2019, and June 28, 2018, respectively. As of December 31, 2019 and 2018, Weiming's actual paid-in capital amounted to CNY1,218,000 thousand and CNY775,000 thousand, respectively.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
The Company	Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	Engaged in trading of petroleum chemical products, electronic chemicals, a variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	44.52 %	44.52 %	Weiqiang was established on May 9, 2013. It increased its capital through the Company amounting to CNY20,000 thousand on February 24, 2018 and verified on February 27, 2018. As of December 31, 2019 and 2018, Weiqiang's actual paid-in capital amounted to CNY44,920 thousand.
The Company	Thanh Phong Construction Investment Co., Ltd. (Thanh Phong)	Engaged in construction, real estate, building construction consulting, lease equipment and wholesale of building materials	97.87 %	97.87 %	Thanh Phong was established on May 22, 2017. Its capital originally invested was VND90,000,000 thousand and increased VND368,637,500 thousand on December 20, 2018 and verified on December 20, 2018. As of December 31, 2019 and 2018, Thanh Phong's actual paid-in capital amounted to VND468,637,500 thousand.
The Company	Ding-Yue Development Co., Ltd (Ding-Yue) (original name: Tao Zhu Construction & Development Co., Ltd.) (Tao Zhu)	Commissioned to create a vendor to build housing, commercial buildings and plant rental business, management of land development and playgrounds and other related business investment	100.00 %	100.00 %	Ding-Yue (original name: Tao Zhu) was established on October 11, 1995. As of December 31, 2018, its actual paid-in capital amounted to \$100,000 thousand and its total asset represented 0.09% of consolidated total assets was not included in the consolidated financial statements. In order to comply with the business strategies of the Company's petrochemical and land development, Ding-Yue started to expand the scale of its land development business since the third quarter 2019 and expects its upcoming operating activities on construction and land development to substantially expand as compared to those of the previous years; therefore, the subsidiary is included in the consolidated financial statement since the third quarter 2019.
Tsou Seen Chemical Industries Corporation	Weihua (Rudong) Trade Co., Ltd. (Weihua)	Engaged in trading of petroleum chemical products, electronic chemicals, a variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	4.02 %	4.02 %	Weihua was established on December 10, 2012. Due to the business combination on August 1, 2018, CIC became a dissolved company and Tsou Seen became a surviving company. The shares hold by CIC were transferred to Tsou Seen after the combination. As of December 31, 2019 and 2018, Weihua's actual paid-in capital amounted to CNY156,289 thousand.
Tsou Seen Chemical Industries Corporation	Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	Engaged in trading of petroleum chemical products, electronic chemicals, a variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	55.48 %	55.48 %	Weiqiang was established on May 9, 2013. It increased its capital through the Company amounting to CNY20,000 thousand on February 24, 2018 and verified on February 27, 2018. Due to the business combination on August 1, 2018, CIC became a dissolved company and Tsou Seen became a surviving company. The shares hold by CIC were transferred to Tsou Seen after the combination. As of December 31, 2019 and 2018, Weiqiang's actual paid-in capital amounted to CNY44,920 thousand.
Tsou Seen Chemical Industries Corporation	Taivex Therapeutics Corporation (Taivex)	Engaged in biotechnology, pharmaceutical research and development and marketing	91.10 %	91.10 %	Taivex was established on February 11, 2010. TSCIC invested in Taivex on August 18, 2010. As of December 31, 2019 and 2018, Taivex's actual paid-in capital amounted to \$507,399 thousand.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
Unichem Development Limited(UDL)	Weiming (Jiangsu) Petrochemical Company (Weiming)	Petrochemical supporting facility construction	99.51 %	99.23 %	Weiming was established on May 16, 2013. It increased its capital through UDL amounting to CNY96,000 thousand, CNY100,000 thousand, CNY 100,000 thousand, CNY147,000 thousand and CNY130,000 thousand on March 12, June 27, September 24, December 25, 2019, and June 25, 2018, respectively. The said amounts were verified on March 13, July 2, September 26, December 26, 2019, and June 28, 2018, respectively. As of December 31, 2019 and 2018, Weiming's actual paid-in capital amounted to CNY1,218,000 thousand and CNY775,000 thousand, respectively.
Unichem Development Limited (UDL)	Weihua (Rudong) Trade Co., Ltd (Weihua)	Engaged in trading of petroleum chemical products, electronic chemicals, a variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	95.98 %	95.98 %	Weihua was established on December 10, 2012. As of December 31, 2019 and 2018, Weihua's actual paid-in capital amounted to CNY156,289 thousand.
Unichem Development Limited(UDL)	Weida (Zhangzhou) Consultant Service Co., Ltd. (Weida)	Consultancy	100.00 %	100.00 %	Weida was established on November 26, 2012. As of December 31, 2019 and 2018, Weida's actual paid-in capital amounted to USD450 thousand.
Unichem Development Limited(UDL)	Zhangzhou Weida Petrochemical Co., Ltd(Weida PC)	Engaged in trading of petroleum chemical products, electronic chemicals, a variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	100.00 %	100.00 %	Weida PC was established on December 23, 2014. As of December 31, 2019 and 2018, Weida PC's actual paid-in capital amounted to CNY6,000 thousand.
Unichem Development Limited(UDL)	Kunshan Weiqin Management consultant Co., Ltd (Weiqin)	Management consultant	100.00 %	100.00 %	Weiqin was established on April 29, 2016. As of December 31, 2019 and 2018, Weiqin's actual paid in capital amounted to CNY6,000 thousand.
Unichem Development Limited(UDL)	Zhejiang Wedge new material Co., Ltd(Wedge)	Engaged in trading of Synthetic fiber material	- %	100.00 %	Wedge was established on July 25, 2016 and was dissolved on April 20, 2018. The liquidation process had been completed on January 29, 2019. As of December 31, 2019 and 2018, Wedge's actual paid-in capital amounted to CNY0 thousand and CNY6,500 thousand, respectively.
Unichem Development Limited(UDL)	Changzhou Weicai New Material Science & Technology Co., Ltd.(Weicai) (Original name:Changzhou Huijie new material Co., Ltd (Huijie))	Engaged in engineering plastic and high-value petroleum chemical products	100.00 %	100.00 %	Weicai (Original name : Huijie) was established on January 6, 2015, and acquired by UDL on November 5, 2018. The investment made through UDL amounted CNY214,955 thousand and was verified on December 27, 2018. As of December 31, 2019 and 2018, Weicai's actual paid-in capital amounted to CNY414,955 thousand and CNY414,955 thousand respectively.
BES Twin Towers Development Co., Ltd.	Frontier Fortune Investment Pte. Ltd. (Frontier Fortune)	Holding company	100.00 %	100.00 %	Frontier Fortune was established on November 23, 2016. It increased its capital through BES Twin Towers amounting to USD36,890 thousand, USD300 thousand and USD5,670 thousand on January 30, March 7, 2019 and November 30, 2018. As of December 31, 2019 and 2018, Frontier fortune's actual paid-in capital amounted to USD43,060 thousand and USD5,870 thousand, respectively.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
Frontier Fortune Investment Pte. Ltd.	Core Pacific Twin Star (Myanmar) Investment Co., Ltd.(Core Pacific Twin Star (Myanmar))	Investment and technical advisory services	100.00 %	100.00 %	Core Pacific Twin Star (Myanmar) was established on February 16, 2017. It increased its capital through Frontier Fortune amounting to USD5,320 thousand on November 30, 2018. As of December 31, 2019 and 2018, Core Pacific Twin Star (Myanmar)'s actual paid-in capital amounted to USD5,500 thousand and USD5,500 thousand, respectively.
Frontier Fortune Investment Pte. Ltd.	Gemini Star (India) Private Limited. (Gemini Star (India))	Real estate, research of petroleum market and consultancy	99.99 %	-	% Gemini Star (India) was established on January 8, 2019. As of December 31, 2019, its actual paid-in capital amounted to INR21,000 thousand.
Frontier Fortune Investment Pte. Ltd.	Core Pacific Twin Star (Vietnam) Investment Co., Ltd. (Core Pacific Twin Star (Vietnam))	Engineering, real estate and construction consultancy	97.70 %	-	% Core Pacific Twin Star (Vietnam) was established on November 19, 2018. It increased its capital through Core Pacific Twin Star (Myanmar) amounted to VND850,000,000 thousand on January 30, 2019. As of December 31, 2019 and 2018, its actual paid-in capital amounted to VND870,000,000 thousand and VND20,000,000 thousand, respectively.
Core Pacific Twin Star (Myanmar) Investment Co., Ltd.	Core Pacific Pioneer (Myanmar) Co., Ltd.(Core Pacific Pioneer (Myanmar))	Building construction, real estate management, development and sale	80.00 %	80.00 %	Core Pacific Pioneer was established on May 24, 2018. It increased its capital through Core Pacific Twin Star (Myanmar) amounted to MMK755,230 thousand on July 3, 2019. As of December 31, 2019 and 2018, its actual paid-in capital amounted to MMK1,512,540 thousand and MMK757,310 thousand, respectively.

(iii) Subsidiaries not included in the consolidated financial statements

Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
The Company	Ding-Yue Development Co., Ltd (Ding-Yue) (original name: Tao Zhu Construction & Development Co., Ltd.) (Tao Zhu)	Commissioned to create a vendor to build the housing, commercial buildings and plant rental business, management of land development and playgrounds and other related business investment	100.00 %	100.00 %	Ding-Yue (original name: Tao Zhu) was established on October 11, 1995. As of December 31, 2019, its actual paid-in capital amounted to \$100,000 thousand and its total asset represented 0.09% of consolidated total assets was not included in the consolidated financial statements. In order to comply with the business strategies of the Company's petrochemical and land development, Ding-Yue started to expand the scale of its land development business since the third quarter 2019 and expected its upcoming operating activities on construction and land development to substantially expand as compared to those of the previous years; therefore, the subsidiary is included in the consolidated financial statement since the third quarter 2019.
The Company	Rich Equities Ltd. (Rich)	Holding company	100.00 %	100.00 %	Rich was established on March 21, 2007. As of December 31, 2019 and 2018, its actual paid-in capital amounted to USD180 thousand and its total assets represented 0.01% of consolidated total assets.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of investors	Name of subsidiaries	Nature of business	Shareholding ratio		Notes
			December 31, 2019	December 31, 2018	
Ding-Yue Development Co., Ltd (Ding-Yue) (original name: Tao Zhu Construction & Development Co., Ltd.) (Tao Zhu)	Da Yin Construction Engineering Co., Ltd.(Da Yin Construction Engineering)	Engineering, construction contracting business	100.00 %	100.00 %	Da Yin Construction Engineering was established on November 24, 1972. As of December 31, 2019 and 2018, its actual paid-in capital both amounted to \$22,500 thousand and its total assets represented 0.02% and 0.03% of consolidated total assets, respectively.

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- an investment in equity securities designated as at fair value through other comprehensive income;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedges are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to noncontrolling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as noncurrent.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non current:

- (i) It is expected to be settled during the in its normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) The Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(g) Construction contracts

Construction contracts in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Construction contracts in progress is presented in the balance sheets as the amount due from customers for contract work for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as amount due to customers for contract work in the balance sheets.

(h) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – equity investment; or fair value through profit or loss (FVTPL). Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, “principal” is defined as the fair value of the financial assets on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features)

6) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and trade receivables, other receivable, guarantee deposit paid and other financial assets) and contract assets.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group’s historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the debtor is unlikely to pay its credit obligations to the Group in full.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECL are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

7) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(i) Inventories

(i) Manufacturing industry

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(ii) Construction industry

Inventories of the construction business are measured at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred in bringing them to their existing location and condition and capitalized borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The net realizable value is estimated as follows:

- 1) Land held for development: net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses, or estimated by recent market value (development analytical method or comparison method).
- 2) Construction-in-progress: net realizable value is the estimated selling price (current market condition) in the ordinary course of business, less the estimated costs of completion and selling expenses, or estimated by recent market value.

(j) Investments in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill which arise from the acquisition less any accumulated impairment losses.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Group, from the date on which significant influence commences until the date on which significant influence ceases.

Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate.

When the Group's share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When the Group subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differ from the amount of the Group's proportionate interest in the net assets of the associate. The Group records such a difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. The aforesaid adjustment should first be adjusted under capital surplus. If the capital surplus resulting from changes in ownership interest is not sufficient, the remaining difference is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate will be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in 'other equity - revaluation surplus' is transferred to retained earnings.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Land improvement	3~30 years
Buildings and constructions	2~60 years
Machine equipment	1~30 years
Transportation equipment	2~40 years
Other equipment	2~13 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in 'other equity - revaluation surplus'. Any loss is recognized in profit or loss. However, to the extent that an amount is included in the revaluation surplus for that property, the loss is recognized in other comprehensive income and reduces the revaluation surplus within equity.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Leases

Leases (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modification

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

If an arrangement contains lease and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For sale-and-leaseback transactions, the Group applies the requirements for determining when a performance obligation is satisfied in IFRS15 to determine whether the transfer of an asset is accounted for as a sale of the asset. If the transfer of an asset satisfies the requirement of IFRS15 to be accounted for as a sale of the asset, the Group derecognizes the transferred asset, then measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained. Accordingly, the Group recognizes only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. For leaseback transaction, the Group applies the lessee accounting policy. If the transfer of an asset does not satisfy the requirement of IFRS15 to be accounted for as a sale of the asset, the Group continues to recognize the transferred asset and recognizes the financial liability equal to the transfer proceeds.

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

The Group recognizes a finance lease receivable at an amount equal to its net investment in the lease. Initial direct costs, such as lessors to negotiate and arrange a lease, are included in the measurement of the net investment. The interest income is recognized over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the lease. The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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Leases (Applicable before January 1, 2019)

(i) Lessor

A finance lease asset is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease are added to the net investment in the leased asset. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable.

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognized in the Group's balance sheets.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the period in which it is incurred.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. The specific asset is the lease subject when depended on by the arrangement. The arrangement is the transfer of a right to use the asset when transfers control of the specific assets to the Group.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

At inception or on reassessment of the arrangement, if an arrangement contains a lease, that lease shall be classified as a finance lease or an operating lease. The Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payment reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental borrowing rate. If the Group concludes for an operating lease that it is impracticable to separate the payment reliably, then it treats all payments under the arrangement as lease payments, and discloses the situation accordingly.

(n) Intangible assets

(i) Recognition and measurement

1) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses. Please refer to Note 6(k) for details of the accounting policy on the initial recognition of goodwill.

2) Other intangible assets

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The estimated useful lives for current and comparative periods are as follows:

Technology	5~13 years
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Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(o) Impairment — non-derivative financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(i) Site dismantling

The estimated obligation on the dismantling, relocation or restoration of property, plant and equipment is recognized as decommissioning cost and liability of property, plant and equipment. The relevant costs of assets are adjusted by subsequent price variation for dismantling and restoration. Depreciation is provided per the remaining useful life of the adjusted cost.

(ii) Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect to contaminated land, and the related expense, is recognized when the land is contaminated.

(q) Revenue

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

(iii) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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The stage of completion is assessed by reference to the proportion that contract cost incurred for work performed to date bear to the estimated total contract cost; survey of work performed; or completion of a physical proportion of the contract work. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(iv) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognized is the net amount of commission made by the Group, and is recognized in proportion to the stage of completion of the transaction.

(v) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(s) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatment, do not meet the definition of income taxes, and therefore accounted for them under IAS37

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities ; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date, and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(t) **Business combination**

The Company accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of (i) the consideration transferred (which is generally measured at fair value) and (ii) the amount of non-controlling interest in the acquiree, both over the identifiable net assets acquired at the acquisition date. If the amount calculated above is a deficit balance, the Company recognized that amount as a gain on a bargain purchase in profit or loss immediately after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

All acquisition-related transaction costs are expensed as incurred, except for the issuance of debt or equity instruments.

For each business combination, the Group measures any noncontrolling interests in the acquiree either at fair value or at the noncontrolling interest's proportionate share of the acquiree's identifiable net assets, if the noncontrolling interests are present ownership interests and entitle their holders to a proportionate share of the Group's net assets in the event of liquidation. Other components of noncontrolling interests are measured at their acquisition-date fair values, unless another measurement basis is required by the IFRSs endorsed by the FSC.

(u) **Earnings per share**

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as employee bonus.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(v) Government Grants

A government grant receivable to the Group as compensation for costs already incurred or for immediate financial support, with no future related costs, should be recognized as income in the period in which it is receivable.

(w) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers as endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Management continues to monitor the accounting estimates and assumptions. Management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is as follows:

(a) Fair valuation of investment property

The Company's investment property is measured at fair value derived from external appraisal reports. When the presumed factors implemented in the evaluation process, e.g. discount rates and return on investment, change due to the evolving market and economy, the change may have an impact on the balance of the recognized assets and profit or loss. For more information regarding the valuation, please refer to note 6(j).

(b) Impairment of property, plant and equipment, and intangible assets

In the process of evaluating the potential impairment of tangible and intangible assets other than goodwill, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups considering of the nature of the industry. Any changes in these estimates based on changed economic conditions or business strategies and could result in significant impairment charges or reversal in future years. Please refer to note 6(h) for further description of the key assumptions used to determine the recoverable amount.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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The Company's accounting policies include measuring financial and non financial assets and liabilities at fair value through profit or loss. The Company's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value.

The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (i) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (ii) Level 2: 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).
- (iii) Level 3: inputs for the assets or liability that are not based on observable market data.

Information on valuation use hypothesis factors was as follows:

- (i) Note 6(j) - Investment property;
- (ii) Note 6(z) - Financial instruments.

(6) Explanation of significant accounts:

- (a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$ 1,567	140,459
Checking and demand deposits	3,855,535	2,972,985
Time deposits	4,629,722	7,987,415
Cash equivalents	<u>629,429</u>	<u>2,369,079</u>
Cash and cash equivalents	<u>\$ 9,116,253</u>	<u>13,469,938</u>

Time deposits with original maturity within three months which are held for the purpose of meeting short-term cash commitments, rather than for investment or other purposes, and are readily convertible to cash at the known amounts and subject to insignificant risk of value changes, are reported as cash equivalents.

Please refer to Note 6(z) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(b) Financial assets at fair value through profit or loss

	December 31, 2019	December 31, 2018
Current financial assets designated at fair value through profit or loss:		
Beneficiary certificates	\$ -	538,987
Structured deposits	-	135,307
Stocks listed on domestic markets	<u>783,180</u>	<u>626,603</u>
Subtotal	<u>783,180</u>	<u>1,300,897</u>
Non-current financial assets designated at fair value through profit or loss:		
Stocks unlisted on domestic markets	<u>9,942,994</u>	<u>4,861,274</u>
Total	<u>\$ 10,726,174</u>	<u>6,162,171</u>

Please refer to Note 6(y) for the gain or loss on financial assets recognized at fair value through profit or loss.

The Group purchased the common and preferred stock of Core Pacific City Co., Ltd. accounted as financial assets at fair value through profit or loss - non current. Core Pacific City Co., Ltd. held a provisional shareholders' meeting on January 17, 2018, in order to cover its deficit of \$7,698,679 thousand, which represented 37.7% of its actual paid-in capital. The reduction record date was January 17, 2018. Based on its articles of incorporation, there is no significant impact on the issuance of its shareholders' preferred stock concerning the matter.

On February 26, 2018, the Company's Board of Directors approved a resolution to invest in Core Pacific City Co., Ltd. by issuing 156,000 thousand preferred shares amounting to \$1,560,000 thousand and accounted in financial assets at fair value through profit or loss—non-current.

On March 31, 2019, the Company's Board of Directors approved a resolution to invest in Core Pacific City Co., Ltd. by issuing 123,528 thousand preferred shares amounting to \$1,235,278 thousand, which were accounted for as financial assets at fair value through profit or loss—non-current.

The Group holds 582,362 and 458,834 shares of the common and preferred stock of Core Pacific City Co., Ltd as of the date of December 31, 2019 and 2018, respectively. The Group recognized the changes in fair value as net gain and loss based on the fair value evaluation report of the investments. According to the valuation report, fair value was measured using the net asset method and the fair value of the valuation date was determined under the assumption of relevant rate of return by the external expert. The amount accounted for gain from investments in equity instruments at fair value through profit or loss was \$3,846,442 thousand and \$165,049 thousand for the years ended December 31, 2019 and 2018, respectively. The increase of fair value was due to the bidding of Core Pacific City Co., Ltd, which was completed on September 25, 2019, and the contract of property transaction was signed on October 30, 2019.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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Please refer to Note 8 for details of the financial assets at fair value through profit or loss of the Group pledged as collateral as of December 31, 2019 and 2018.

(c) Financial assets at fair value through other comprehensive income

	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss		
-current :		
Stock listed on domestic markets	\$ <u>321,647</u>	<u>251,629</u>
Equity investments at fair value through other comprehensive income - non current		
Stocks listed on domestic markets	1,595,896	1,496,948
Stocks unlisted on domestic markets	<u>442,497</u>	<u>481,391</u>
Subtotal	<u>2,038,393</u>	<u>1,978,339</u>
Total	\$ <u>2,360,040</u>	<u>2,229,968</u>

Please refer to Note 6(t) for the gain or loss on financial assets recognized at fair value through other comprehensive income.

The dividend income from the financial assets recognized at fair value through other comprehensive income for the years ended December 31, 2019 and 2018 amounted to \$272,736 thousand and \$625,787 thousand.

- (i) The director of Praxair Chemax Semiconductor Materials Co., Ltd. (hereinafter referred to as "PRAXAIR") delegated by the Company, was elected as the new Chairman in the directors' meeting on Jan. 30th, 2013. However, Praxair Inc. did not recognize the director delegated by the Company as the Chairman, resulting in the new Chairman being unable to exercise his authority. Also, the supervisor appointed by the Company was prevented from auditing the accounts and records pursuant to the Company Law, hence, the new Chairman and the designated supervisor representing PRAXAIR, filed an action asking the vice chairman and general manager to provide the accounts and records and requested to return the seal, business invasion and others in a civil lawsuit. The vice chairman delegated by Praxair Inc. claimed privilege to act as the Chairman and filed legal actions declaring the non-existence of the new Chairman's commission of authority and also sent a letter to the court requesting a dissolution of PRAXAIR, which was rejected by the courts. The supervisor appointed by Praxair Inc. illegally called a temporary shareholders' meeting in 2013 to propose the dissolution of the Company and reelection of directors and supervisors. Hence, the Company filed legal actions declaring the withdrawal of the resolution from the illegal temporary shareholders' meetings and the resolutions from the temporary shareholders' meeting was not established. Currently, the supervisor filed legal action against the manager for submitting the accounts and the records, after winning the 1st and 2nd trial, the defendant appealed but was dismissed by the 3rd trial instance. This case was remanded to the Taipei High Court but the verdict was dismissed in 2015. The Company was not satisfied with the appeal and filed the legal action. The judgment was binding and final on December 2017. On the other side, the vice chairman designated by Praxair Inc. filed legal action declaring the non-existence of the new Chairman's commission of authority, after the judgment from the High Court that the Chairman designated by the Company won the verdict, the defendant appealed to the 3rd instance, with the Supreme

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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Court dismissing the appeal. The whole case confirms the appointed relationship between the Chairman designated by the Company and PRAXAIR exists. On November 19th 2016, the letter from Ministry of Economic Affairs states that Lin Ke-Ming, appointed by the Company, is the Chairman of PRAXAIR, and restored the representative duty per the judgment No. 2455 from the Supreme High Court in 2015. However, according to the requirement from Ministry of Economic Affairs, both sides were not able to hold the legitimate reelection prior to Jan. 9th 2017 which resulted in vacancy of directors and supervisors of PRAXAIR. In order to strive for the rights and interests of the shareholders, the Company immediately brought the arbitration per joint venture agreement of both sides and applied for an auditor and provisional administrator to instruct the central section office of the Ministry of Economic Affairs to allow Praxair Inc. to conduct the change of registration on July 6th 2017. The Company filed a request for the arbitration of International Chamber of Commerce in 2017 and received the award issued by the International Court of International Chamber of Commerce on September 3, 2018. A part of the award favored for the Company and confirmed that the Company was entitled to receive the dividends from PCSM for the year of 2013. In order to protect the Company's right, the Company submitted a lawsuit withdrawing a part of such Arbitration award against the Company to Taipei District Court. On December 13, Taipei District Court dismissed the Company's claim of withdrawing the ICC's decision. The Company filed an appeal on January 8, 2020, that is now adjudicated by Taiwan High Court.

As of December 31, 2019 and 2018, the Group provided as collateral portion of its financial assets. Please refer to Note 8 for details of the related assets pledged as collateral.

(ii) Sensitivity analysis – equity price risk:

If the equity price changes, and if it is based on the same basis for both years and assumes that all other variables remain the same, the impact to comprehensive income will be as follows:

	For the years ended December 31,			
	2019		2018	
	After-tax other comprehensive income	After-tax Profit (loss)	After-tax other comprehensive income	After-tax Profit (loss)
Equity price at reporting date				
Increase of 1%	\$ <u>23,600</u>	<u>107,262</u>	<u>22,300</u>	<u>61,622</u>
Decrease of 1%	\$ <u>(23,600)</u>	<u>(107,262)</u>	<u>(22,300)</u>	<u>(61,622)</u>

(d) Notes, trades, and other receivables

	December 31, 2019	December 31, 2018
Notes receivable	\$ 506,380	687,341
Accounts receivable (including related parties)	1,644,359	2,399,163
Other receivables	259,097	123,898
Less: allowance for doubtful receivables	<u>(451,529)</u>	<u>(455,937)</u>
Net book value	<u>\$ 1,958,307</u>	<u>2,754,465</u>

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Movements of the allowance for doubtful receivables for the years ended December 31, 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Balance on January 1, 2019 and 2018	\$ 455,937	476,319
Foreign exchange losses	(4,408)	(20,382)
Balance on December 31, 2019 and 2018	\$ 451,529	455,937

The consolidated subsidiaries, Weihua (Rudong) Trade Co., Ltd. and Weiqiang International Trade (Shanghai) Co., Ltd., filed civil complaints against Shanghai Tongye Coal Chemical Group Co. Ltd. in Shanghai to claim for the delay of payment of their accounts receivable from Shanghai Tongye Coal Chemical Group Co., Ltd. However, both of these consolidated subsidiaries have recognized impairment loss on the said accounts receivable as of December 31, 2019. Please refer to Note 9(f) for further details relating to litigation and evaluation of collectability.

There were no notes, trade, and other receivables of the Group had been pledged as collateral as of December 31, 2019 and 2018.

(e) Inventories

	December 31, 2019	December 31, 2018
Finished goods	\$ 363,659	494,735
Work-in-process	395,249	291,312
Raw materials	1,338,484	1,319,204
Fuel	19,350	23,040
Merchandise inventories	47,505	104,709
Subtotal	<u>2,164,247</u>	<u>2,233,000</u>
Prepayment for land	7,440,010	-
Land held for construction site - compensation for levied land	9,423	-
Payment for floor area ratio	13,535	-
Construction in progress	<u>75,243</u>	<u>10,840</u>
Subtotal	<u>7,538,211</u>	<u>10,840</u>
Total	\$ 9,702,458	2,243,840

A resolution was made during the Board of Directors' meeting held on September 25, 2019 for the Group to acquire Core Pacific City's permanent land ownership. The Group won the bidding on the same date. On October 30, 2019, the Group subsequently entered into a purchase agreement with Core Pacific City Co., Ltd. to buy the land located at Songshan District, Taipei City, as a construction site, for the amount of \$37,200,010 thousand. As of December 31, 2019, both parties have agreed to put the property, which includes the land and the existing construction along with an initial amount of \$7,440,010 thousand, with a future payable amount of \$29,760,000 thousand, into a trust.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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For the years ended December 31, 2019 and 2018, the components of cost of goods sold were as follows:

	For the years ended December 31,	
	2019	2018
Cost of goods sold	\$ 27,511,870	32,896,647
(Gain on reversal of) write-down or scrapping	(85,013)	140,104
Net inventory loss (profit)	41,846	22,881
Unallocated fixed production overheads from idle facilities	555,181	295,345
Revenue from sale of scraps	(27,370)	(28,018)
Net amount	<u><u>\$ 27,996,514</u></u>	<u><u>33,326,959</u></u>

As of December 31, 2019 and 2018, the aforesaid inventories were not pledged as collateral.

(f) Investments accounted for using equity method

- (i) The Group's investments accounted for using the equity method at the reporting date were classified as follows:

	December 31, 2019	December 31, 2018
Subsidiaries	\$ 34,264	81,666
Associates	<u>2,284,532</u>	<u>2,323,745</u>
Total	<u><u>\$ 2,318,796</u></u>	<u><u>2,405,411</u></u>

- (ii) The Group's investments accounted for using the equity method that are individually insignificant were as follows:

	December 31, 2019	December 31, 2018
Carrying value of insignificant subsidiaries	<u><u>\$ 34,264</u></u>	<u><u>81,666</u></u>
Carrying value of insignificant associates	<u><u>\$ 5,487,139</u></u>	<u><u>5,576,193</u></u>

	For the years ended December 31,	
	2019	2018
Attribution to the Group		
Profit from continuing operations	\$ 494,301	887,970
Other comprehensive income	<u>5,719</u>	<u>(70,122)</u>
Total comprehensive income	<u><u>\$ 500,020</u></u>	<u><u>817,848</u></u>

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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- (iii) Share of profit (loss) of subsidiaries and associates for the years ended December 31, 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Share of profit (loss) of subsidiaries and associates	\$ 494,301	887,970

- (iv) The key financial information of subsidiaries and associates in which the Group has equity investments were as follows (before adjustment for the Group's proportionate share):

	December 31, 2019	December 31, 2018
Total assets	\$ 9,853,878	7,245,850
Total liabilities	(4,332,283)	(1,588,376)
	\$ 5,521,595	5,657,474

	For the years ended December 31,	
	2019	2018
Revenue	\$ 5,193,485	7,244,503
Net income	\$ 1,228,051	2,256,289

The Group does not guarantee any contingent liabilities of an associate jointly with other investors. Likewise, the Group does not guarantee alone any other contingent liabilities of an associate.

- (v) On August 12, 2019, a resolution was made during the board meeting of the Company to invest in Jean Pacific Development Co., Ltd., in the amount of \$480,000 thousand.

- (vi) Collateral

As of December 31, 2019 and 2018, the Group provided as collateral a portion of its investments in aforesaid equity-accounted investees. Please refer to Note 8 for details of the related assets pledged as collateral.

- (g) Business Combination

- (i) The Group acquired Changzhou Weicai New Material Science and Technology Co., Ltd. on November 5, 2018, for 100.00% of its shares and obtained controlling power of the entity. The entity engages in manufacturing plastic products.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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The transfer price was \$356,869 thousand in cash, the fair value of assets acquired and liabilities assumed on the acquisition date was as below:

Cash and cash equivalents	\$ 47,222
Notes and account receivables	4,032
Other receivables	6,090
Inventories	4,994
Other assets - current	100,137
Property, plant and equipment	1,200,245
Intangible assets	156,655
Short-term debts	(265,345)
Account payable	(219)
Other payable	(860,584)
Other liabilities - current	(142)
Long-term debts	(179,895)
Fair value of identifiable assets	<u><u>\$ 213,190</u></u>

Goodwill derived from acquisition:

Transfer price	\$ 356,869
Fair value of identifiable assets	(213,190)
Goodwill	<u><u>\$ 143,679</u></u>

- (ii) The Group acquired Thanh Phong Construction Investment Ltd. on December 20, 2018, for 90% of its shares and obtained controlling power of the entity. The entity engages in real estate and construction.

The transfer price was \$119,573 thousand in cash, the fair value of assets acquired and liabilities assumed on the acquisition date was as below:

Cash and cash equivalents	\$ 132,857
Fair value of identifiable assets	<u><u>\$ 132,857</u></u>

Goodwill derived from acquisition:

Transfer price	\$ 119,573
Non-controlling equity (fair value of identifiable assets measured at the percentage of non-controlling equity)	13,284
Fair value of identifiable assets	(132,857)
Goodwill	<u><u>\$ -</u></u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(h) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2019 and 2018 were as follows:

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Other facilities	Construction in progress	Accumulated impairment	Total
Cost or deemed cost:									
Balance as of January 1, 2019	\$ 5,730,777	287,788	3,762,638	42,797,307	72,378	262,886	4,599,015	-	57,512,789
Acquisition through business combination	-	-	-	-	-	88	-	-	88
Additions	-	-	1,493	4,237	6,538	16,885	5,270,263	-	5,299,416
Disposal	-	-	(1,136)	(953,211)	(7,395)	(29,832)	(9,814)	-	(1,001,388)
Reclassification	-	5,034	13,986	1,291,504	10,947	21,865	(1,343,336)	-	-
Effect of movements in exchange rate	-	-	(35,253)	(36,908)	(470)	(2,363)	(196,804)	-	(271,798)
Balance as of December 31, 2019	<u>\$ 5,730,777</u>	<u>292,822</u>	<u>3,741,728</u>	<u>43,102,929</u>	<u>81,998</u>	<u>269,529</u>	<u>8,319,324</u>	<u>-</u>	<u>61,539,107</u>
Balance as of January 1, 2018	\$ 5,730,777	271,654	2,630,166	41,644,060	72,017	203,396	3,284,476	-	53,836,546
Acquisition through business combination	-	-	812,580	706,580	-	33,427	-	-	1,552,587
Additions	-	-	2,574	1,897	1,285	19,262	2,719,648	-	2,744,666
Disposals	-	(3,465)	(25,640)	(464,862)	(5,388)	(3,313)	(13,593)	-	(516,261)
Reclassification	-	19,599	364,293	931,770	4,755	11,451	(1,331,868)	-	-
Effect of movements in exchange rate	-	-	(21,335)	(22,138)	(291)	(1,337)	(59,648)	-	(104,749)
Balance as of December 31, 2018	<u>\$ 5,730,777</u>	<u>287,788</u>	<u>3,762,638</u>	<u>42,797,307</u>	<u>72,378</u>	<u>262,886</u>	<u>4,599,015</u>	<u>-</u>	<u>57,512,789</u>
Depreciation and impairment loss:									
Balance as of January 1, 2019	\$ -	216,485	1,266,906	34,148,642	59,050	182,206	-	2,137,966	38,011,255
Acquisition through business combination	-	-	-	-	-	27	-	-	27
Depreciation for the period	-	6,536	129,681	1,197,138	4,266	23,648	-	-	1,361,269
Impairment	-	-	-	-	-	-	-	2,901,096	2,901,096
Disposals	-	-	(1,136)	(949,673)	(6,237)	(28,408)	-	(484)	(985,938)
Reclassification	-	-	372	2,451	70	(2,893)	-	-	-
Effect of movements in exchange rate	-	-	(6,941)	(15,453)	(250)	(1,237)	-	-	(23,881)
Balance as of December 31, 2019	<u>\$ -</u>	<u>223,021</u>	<u>1,388,882</u>	<u>34,383,105</u>	<u>56,899</u>	<u>173,343</u>	<u>-</u>	<u>5,038,578</u>	<u>41,263,828</u>
Balance as of January 1, 2018	\$ -	214,969	1,095,840	33,221,690	58,441	155,845	-	2,154,331	36,901,116
Acquisition through business combination	-	-	73,979	166,795	-	9,998	-	-	250,772
Depreciation for the period	-	4,981	122,893	1,212,101	5,148	19,564	-	-	1,364,687
Disposals	-	(3,465)	(22,745)	(444,446)	(4,725)	(2,796)	-	(16,365)	(494,542)
Reclassification	-	-	-	(510)	386	124	-	-	-
Effect of movements in exchange rate	-	-	(3,061)	(6,988)	(200)	(529)	-	-	(10,778)
Balance as of December 31, 2018	<u>\$ -</u>	<u>216,485</u>	<u>1,266,906</u>	<u>34,148,642</u>	<u>59,050</u>	<u>182,206</u>	<u>-</u>	<u>2,137,966</u>	<u>38,011,255</u>
Carrying amounts:									
Balance as of December 31, 2019	<u>\$ 5,730,777</u>	<u>69,801</u>	<u>2,352,846</u>	<u>8,719,824</u>	<u>25,099</u>	<u>96,186</u>	<u>8,319,324</u>	<u>(5,038,578)</u>	<u>20,275,279</u>
Balance as of January 1, 2018	<u>\$ 5,730,777</u>	<u>56,685</u>	<u>1,534,326</u>	<u>8,422,370</u>	<u>13,576</u>	<u>47,551</u>	<u>3,284,476</u>	<u>(2,154,331)</u>	<u>16,935,430</u>
Balance as of December 31, 2018	<u>\$ 5,730,777</u>	<u>71,303</u>	<u>2,495,732</u>	<u>8,648,665</u>	<u>13,328</u>	<u>80,680</u>	<u>4,599,015</u>	<u>(2,137,966)</u>	<u>19,501,534</u>

The market price of Caprolactam (“CPL”), the main product of the Company, has declined over the past few years. Recovery of the market price is unlikely as the production capacity of CPL continues to expand. The amount of book value of the Toufen production line CGU was evaluated as higher than its recoverable amount, resulting in a impairment loss amounting to \$2,901,096 thousand, which was recognized under the non-operating profit or loss section of the statement of comprehensive income. The value-in-use was discounted by using the pre-tax discount rate of 6.86% for the year ended on December 31, 2019. The recoverable amount was determined by the total of value-in-use and net fair value (fair value, less, cost of disposal), whose evaluation involved an input value belonging to level 3 and was conducted by using the market method.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

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As of December 31, 2019 and 2018, the Group provided as collateral, a portion of its property, plant and equipment, please refer to Note 8 for details of the related assets pledged as collateral.

On November 26, 2013, the plan to invest in China was approved during the meeting of the Board of Directors of the Company. On March 25, 2014 and November 1, 2018, the Investment Commission, Ministry of Economic Affairs (MOEA) approved the investment of the Company in Jiangsu Weiming Petrochemical Corporation in China in the amount of CNY2,388,000 thousand (equivalent to \$11,100,000 thousand) mainly to establish manufacturing operations for petrochemical products (including hydrotreating crude benzol, cyclohexanone, nylon 6, etc.). As of December 31, 2019 and 2018, accumulated investment remittance from Taiwan to Mainland China was CNY1,218,000 thousand and CNY775,000 thousand, respectively. The amount invested in manufacturing plant and machinery was CNY1,251,456 thousand and CNY670,251 thousand, respectively.

(i) Right-of-use assets

The Group leases assets including land, land use right, buildings, machinery and equipment and vehicles. Information about leases for which the Group as a lessee is presented below:

		Land	Land-use right	Buildings	Machinery and equipment	Vehicles	Other facilities	Total
Cost:								
Balance as of January 1, 2019	\$	-	-	-	-	-	-	-
Effects of retrospective application		204,443	682,373	12,155	63,906	16,537	1,774	981,188
Balance as of January 1, 2019 - retrospective		204,443	682,373	12,155	63,906	16,537	1,774	981,188
Acquisition through business combination		-	-	-	-	615	-	615
Additions		108	-	7,399	-	4,411	164	12,082
Disposal		-	-	-	-	(2,107)	-	(2,107)
Effect of movements in exchange rate		-	(24,635)	-	-	-	-	(24,635)
Balance as of December 31, 2019	\$	<u>204,551</u>	<u>657,738</u>	<u>19,554</u>	<u>63,906</u>	<u>19,456</u>	<u>1,938</u>	<u>967,143</u>
Accumulated depreciation and impairment losses:								
Balance as of January 1, 2019	\$	-	-	-	-	-	-	-
Effects of retrospective application		-	47,630	-	-	-	-	47,630
Balance as of January 1, 2019 - retrospective		-	47,630	-	-	-	-	47,630
Depreciation for the period		8,012	13,686	8,901	33,708	9,096	580	73,983
Disposal		-	-	-	-	(621)	-	(621)
Effect of movements in exchange rate		-	(2,353)	-	-	-	-	(2,353)
Balance as of December 31, 2019	\$	<u>8,012</u>	<u>58,963</u>	<u>8,901</u>	<u>33,708</u>	<u>8,475</u>	<u>580</u>	<u>118,639</u>
Carrying amounts:								
Balance as of December 31, 2019	\$	<u>196,539</u>	<u>598,775</u>	<u>10,653</u>	<u>30,198</u>	<u>10,981</u>	<u>1,358</u>	<u>848,504</u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(j) Investment property

The movement of investment property was as followed:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance as of January 1, 2019	\$ 38,331,633	18,726	38,350,359
Acquisition through business combination	2,075	-	2,075
Decrease	(9,423)	-	(9,423)
Net gains and losses due to fair value adjustments	(1,622,617)	(688)	(1,623,305)
Balance as of December 31, 2019	<u>\$ 36,701,668</u>	<u>18,038</u>	<u>36,719,706</u>
Balance as of January 1, 2018	\$ 38,211,181	15,351	38,226,532
Net gains and losses due to fair value adjustments	120,452	3,375	123,827
Balance as of December 31, 2018	<u>\$ 38,331,633</u>	<u>18,726</u>	<u>38,350,359</u>
Carrying amounts:			
Balance as of December 31, 2019	<u>\$ 36,701,668</u>	<u>18,038</u>	<u>36,719,706</u>
Balance as of January 1, 2018	<u>\$ 38,211,181</u>	<u>15,351</u>	<u>38,226,532</u>
Balance as of December 31, 2018	<u>\$ 38,331,633</u>	<u>18,726</u>	<u>38,350,359</u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(i) Evaluation by income approach

The fair value of some investment properties of the Group was determined using the income approach. Under this income approach, the key terms of the rental contracts for these investment properties and certain other factors considered were as follows:

December 31, 2019

Subject	Qianjin Dist., Kaohsiung City	Qianzhen Dist., Kaohsiung City
Important contract terms	None	None
The range of rental in the area where the investment property is located	\$550~\$700(NT dollars)	\$450(NT dollars)
The rental range of similar investment property	\$563~\$589(NT dollars)	None
The current status of the investment property	Unused	Leased
Past earnings	\$0~ \$0	\$0~ \$0
Income capitalization rate	5.525%	None
Discount rate	4.380%	4.780%
Outsourcing or self-valuation	Outsourcing	Outsourcing
Evaluation office	Colliers International Taiwan	Colliers International Taiwan
Appraiser name	Feng-ru, Ke	Shiou-ying, Jan
Evaluation date	December 31, 2019	December 31, 2019
Outsourcing fair value	\$ 10,530	\$ 2,514,000

December 31, 2018

Subject	Qianjin Dist., Kaohsiung City
Important contract terms	None
The range of rental in the area where the investment property is located	\$550~\$700(NT dollars)
The rental range of similar investment property	\$549~\$596(NT dollars)
The current status of the investment property	Unused
Past earnings	\$0~ \$0
Income capitalization rate	5.415%
Discount rate	4.380%
Outsourcing or self-valuation	Outsourcing
Evaluation office	Colliers International Taiwan
Appraiser name	Feng-Yu, Ke
Evaluation date	December 31, 2018
Outsourcing fair value	\$ 10,640

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In accordance with Article 34 of the Regulations on Real Estate Appraisal, the income approach procedures include estimating the effective gross income and total expenses, computing the net operating income, determining the capitalization rate or discount rate, and computing the income. The attributes used by the Group for the estimations above were the last three years' data from the subject property and comparable properties which have similar characteristics, and these data were assessed and adjusted based on their persistency, stability, and growth to ensure the availability and reasonableness of these data. The movement of income (cash inflows) and expenditure (cash outflows) for future periods was based on the vacancies or losses, existing or future cash flow plans of the Group, and historical cash flows from the subject property, identical properties, or properties in the same industry. The estimation and computation of the net income were based on the highest and best use of the subject property and have taken into consideration the income generated from comparable properties in the same location based on their highest and best use.

External appraisers use the risk premium method to decide on the direct capitalization rate and discount rate. The fixed deposit interest rate, government bonds rate, real estate investment risk, money supply-demand variation, the trend of real estate value are taken into consideration to decide the likely rate of return on the most common investment as a basis in order to derive the capitalization rate or discount rate. The differences in individual characteristics between the above most common investment and the subject property are compared in terms of their liquidity, risk, appreciation, and management. As of December 31, 2019 and 2018, the discount rate was 4.380%~4.780% and 4.380%, respectively. As of December 31, 2019 and 2018, the weighted average capitalization rate was 5.525%% and 5.415%, respectively, derived as the ratio of annual net operating income of comparable properties divided by reasonable price.

(ii) Evaluation through land development analysis

The Group classified its undeveloped land as investment property. The Group adopted the development land analysis approach to measure the fair value of the undeveloped land in accordance with Article 9 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The input value involved in evaluation belongs to level 3. The relevant information is summarized as follows:

December 31, 2019

Subject	Annan Dist., Tainan City	Qianzhen Dist., Kaohsiung City	Others
Estimate total sales price	7,968,120	101,156,568	2,718,175
Rate of return	23%	18%~30%	12%~25%
Capital interest rate	1.790%	3.900%~8.930%	1.06%~3.47%
Evaluation office	CCIS Real Estate Joint Appraisers Firm	Colliers International Taiwan	Hon Bun Real Estate Appraisers Firm and Colliers International Taiwan, China Real Estate Appraisers Firm
Appraiser name	Huo-ming, Huang	Shiou-ying, Jan , Jian-hui,Gu	Yu-xian, Houn , Jian-hui,Gu , Shiou-ying, Jan and Dian-Ching, Hsieh
Evaluation date	December 31, 2019	December 31, 2019	December 31, 2019
Outsourcing fair value	\$ 4,956,990	27,885,380	1,352,806

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December 31, 2018

Subject	Annan Dist., Tainan City	Qianzhen Dist., Kaohsiung City	Others
Estimate total sales price	7,968,120	9,612,972 (Note)	2,717,238
Rate of return	23%	18%	12%~25%
Capital interest rate	1.790%	3.810%~3.930%	0.710%~4.380%
Evaluation office	CCIS Real Estate Joint Appraisers Firm	Colliers International Taiwan	Hon Bun Real Estate Appraisers Firm and Colliers International Taiwan,
Appraiser name	Huo-ming, Huang	Shiou-ying, Jan and Jian-hui, Gu	Yu-xian, Houn, Jian-hui, Gu, and Shiou-ying, Jan
Evaluation date	December 31, 2018	December 31, 2018	December 31, 2018
Outsourcing fair value	\$ 5,020,755	31,970,281	1,348,683

Note: some of the estimated market value, as a whole, is determined based on the basic unit.

The fair value of the Group's investment property is outsourced. In accordance with the appraisal reports, the approach and process include selecting a section as a basic unit, whose market value is estimated through comparison approach and cost approach, wherein the time and leveling cost are then factored in to approximate the fair value of the subject.

The land development analysis included procedures such as identifying the content of land development and estimating the required period of development; investigating individual cost and related expenses, collecting current market prices; on-site survey and investigating and analyzing the degree of development in the local environment; estimating the marketable area of land or building after construction or building; estimating the total sales price of properties after completion of construction or building; estimating individual cost and related expenses; deciding an appropriate rate of return and an overall capital interest rate; calculating land development analysis value.

Investment property included several rentals of real property to others. Each lease contract include the original non-cancellable lease and the subsequent lease is negotiated with the lessee without collection of contingent rental. Please refer to Note 6(q) for the relevant information including rent revenue and the direct operating expenses incurred.

As of December 31, 2019 and 2018, the Group provided as collateral portion of its investment property. Please refer to Note 8 for details of the related assets pledged as collateral.

In the era of pre-Taiwan Alkali Industrial Corporation (TAIC), TAIC had leased the lands located in Tainan and Chiayi area to the local peasants and fishermen, and the surviving tenants shall continue paying the rent to the Company according to the agreements. In the event of the resumption of self-business use or the sale of the lands, the leases shall be terminated under the contractual agreements and Land Laws. If there is any redemption in some cases, the Company will recognize and evaluate the possible expenses and costs case by case.

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AnShun Land Located in Tainan City Annan District:

(i) History

- 1) The land where the AnShun Alkali plants located was originally established by Japanese company Kanegafuchi Soda in 1938 under Japanese Colonial Rule.
- 2) The Government undertook the construction after the Retrocession of Taiwan, and established a state-owned company, Taiwan Alkali Industrial Corporation (TAIC) and operated at the AnShun Site. In 1961, the competent authorities in charge of the relevant state-owned enterprises approved the investment plan and budget for producing Pentachlorophenol and sodium pentachlorophenol products used in herbicides and wood preservative fungicides.
- 3) Due to operational factors, the plant was ordered to be closed by Executive Yuan Department of Economic Affairs in early 1982.
- 4) In April 1983, Executive Yuan Department of Economic Affairs ordered China Petrochemical Development Corp., the state-owned Company, the subsidiary of CPC at the time, to merge with TAIC. The Company took charge of Anshun land of TAIC.
- 5) Since the said merger, the Company's takeover the Anshun land, the Company has never had any act of production, operations, development, use or pollution at the site. According to subsequent investigation and research, parts of the area had dioxin and mercury contamination in soil. The land was designated by the Tainan City Government and the Environmental Protection Department of the Executive Yuan as a "Soil Pollution Control Site" and "Soil pollution remediation site" in April 2002 and March 2004, respectively, per the Soil and Groundwater Pollution Remediation Act.
- 6) Tainan city government and other government authorities cited Article 75 of Taiwan's Company Law that since the Company merged with TAIC, and was regarded as the surviving company, the Company should take all responsibilities for the rights and obligations of TAIC, along with the treatment projects and remediation plan. As the Company never used the land after being ordered to take charge by the Executive Yuan Department of Ministry of Economic Affairs (MOEA), the Company thus objected and carried out the following administrative and judicial remedies to identify the government conception of the "Polluters" and the condition of pollution:
 - a) The Company filed a plea of State Compensation claim to Ministry of Economic Affairs, Administration Yuan (MOEA), but was rejected.
 - b) In January 2006, the Company filed a complaint against MOEA in the Taiwan Taipei District Court in the amount of \$10,077 thousand for reimbursement compensation.

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- c) The complaint was dismissed by the Supreme Court in February, 2008. Upon the application of Constitution Interpretation by the Company, J.Y. No.714 Interpretation of the Grand Justice was issued in November, 2013, and considered that Soil and Groundwater Pollution Remediation Act (SGPR Act) does not violate the principle of prohibition against retroactive law, or the principle of proportionality the retroactive rule; however, the holding did not mention whether the successor of the Polluter entity should be responsible for the treatment projects and remediation plan under SGPR Act was not within the scope of the regulation.
 - d) The Company has filed series of complaint on those issues according to this Constitutional Interpretation.
- 7) Tainan City Government issued the letter No. 09722000130 and No. 09722003360 in January and February 2008 respectively, and requested the Company propose a remediation plan for the soil and groundwater pollution of the Anshun plant in accordance with the Soil and Groundwater Pollution Remediation Act.
- a) The Company proposed the “Tainan City, CPDC former Taiwan Alkali Anshun site and 2nd class number nine road on the eastern side of the grass area of the site, soil pollution remediation pollution remediation plan” per the regulation at the end of June 2008 and the plan was submitted to Tainan city government for review and formally approved in May 2009. In 2012, the remediation plan was put forward and approved on July 2, 2012. The 1st instance was completed in September 2014 and entered the second phase of the remediation, which will last 10 years. A second revision of the remediation plan was proposed and submitted to Tainan City Government for review, and the approval letter issued by Tainan City Government informed of the approval of the 2nd remediation plan, which shall be publicly displayed per regulations. Currently, the Tainan City Environmental Protection Bureau reviewed and adopted the plan on April 14, 2015 and the assessment was announced by Tainan City Government on May 4, 2015. According to the remediation technology and the actual implementation of the subsequence adjustment, the 3rd remediation change plan was proposed on March 2, 2017, which remediation plan was focus on the remediation plan of 2nd phase and brought in the unfinished items in the 2nd change plan. Currently, the 3rd plan was reviewed and adopted on January 3, 2018.
 - b) The related remediation expense for the first phase was estimated to be \$1,647,200 thousand. The remediation expense about \$1,600,000 thousand was engaged as the 1st phase until September 2014. Simultaneously, the following 10-year remediation work needed to be started after the 2nd change plan was adopted at an estimated cost of \$1,356,000 thousand in December 2014.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Extension legislation:

1) Remediation prepay

- a) Tainan city government on February 27, 2008 with the letter No. 09722004430 asked the Company to pay each expense: \$88,786 thousand, coming from investigation assessments and strain necessary measures, which was prepaid by Tainan city government and EPA of Executive Yuan on behalf of land polluters, within deadline. The expense would double and transfer to court for enforcement if overdue. This expense was adjusted to list in 2007 per Financial Accounting Standards and the Company prepaid on behalf of land relations based on the laws and regulations in July 2008. The Company objected to the prepaid expense and land polluter, hence, the administrative remedy was proposed in July 2008, with Kaohsiung High Administrative court sentencing the Company to pay the expense \$88,430 thousand in January 2008. The Company appealed in March 2008 and Supreme Administrative Court sent the case back to Kaohsiung High Administrative Court for further trial. Kaohsiung High Administrative court sentenced the original punishment and the petition decision beyond \$76,066 thousand was withdrawn. In December 2013, both parties proposed the appeal for the unfavorable parts and Supreme Administrative Court sentenced the amount beyond \$203 thousand and lawsuit expenses are all abandoned in April 2015 and sent back to Kaohsiung High Administrative court for continued trial. The determined withdrawn amount \$356 thousand had all been returned back to the account by Tainan city government. Kaohsiung High Administrative court rejected the appeal of the Company on December 2016. The Company proposed the appeal remedy for the unsatisfied sentenced contents on January 2017. Supreme Administrative Court sentenced on January 2018 that the expenses \$1,134,718 thousand did not need to be undertaken by the Company.
- b) Tainan city government on May 22, 2009 with the letter No. 09822013680 asked the Company pay the expenses \$17,962 thousand, which resulted from the relevant working plan of AnShun Land Site soil pollution remediation and was prepaid by Tainan city government on behalf of the Company, and Tainan city government in December 2009 with the letter No. 09822035440 asked the Company to pay the above fees prior to January 31, 2010. The Company estimated such expense at the end of 2009 and proposed the administrative remedy in January 2010 and prepaid the above fees within the deadline inquired by Tainan city government based on the law regulations. The petition was rejected in March 2011, thus, the administrative lawsuit was proposed according to the law. Kaohsiung High Administrative court sentenced that the amount beyond \$17,867 thousand was withdrawn. After the appeal, Supreme Administrative Court sentenced to return back to Kaohsiung High Administrative court for further trial in Sept. 2013. Kaohsiung High Administrative court sentenced the amount beyond \$7,068 thousand was withdrawn on October 7, 2015 and this case had been appealed for the remedy. The determined withdrawn amount \$95 thousand had been returned back to the account by Tainan city government. The verdict from Supreme Administrative Court had been received on February 18, 2017, the fact was again returned back to Kaohsiung High Administrative court for the trial.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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- c) The Tainan City Government, in February 2014, decided that the Company was the polluter per judgment No. 1953 which was passed down in 2007 and asked the Company to pay the 2011 advanced payment of supervision and management on behalf of Anshun factory, in the amount of \$27,444 thousand. The Company paid the fee in advance as previously mentioned within the requested deadline by the Tainan City Government based on the law regulations and filed the petition for remedy in March 2014, which was rejected by the petition authorities. The Company was not satisfied with the result, and filed the administrative legal appeal in September of the same year. The Kaohsiung High Administrative Court sentenced the Company to pay \$154 thousand. However, Tainan City Government was not satisfied with the verdict and filed the appeal for remedy, the Company also filed an appeal based on the Company's claims to Supreme Administrative High Court. The Supreme Administrative High Court suspended the original verdict in February 2018, and currently the case is under hearing by the Kaohsiung High Administrative Court. On December 19, 2019, a fine of \$5,301 thousand was imposed by the court; in pursuit of the best interest of the Company, an appeal was filed with Supreme Administrative Court on January 16, 2020.
- d) Tainan City Government, in May 2016, issued the letter No. 10504498726, requesting the Company pay a fee for the "supervision management and audit work plan of 2013 CPDC (Taiwan Alkali) Anshun plant site remediation" and requesting the Company pay the fee of \$63,271 thousand prior to July 20, 2016, per paragraph 4 of article 14, article 15 and paragraph 1 of article 43. The Company paid the fee within the requested deadline by the Tainan City Government based on applicable regulations. After the rejection of the petition for the remedy in June 2016, the Company filed for administrative litigation in December 2016 and received parts of the winning judgment in July 2017. In order to maintain the Company's right and interest, the Company had proposed the appeal to Supreme Administrative Court for remedy of the unfavorable parts in August 2017.
- e) The Tainan City Government issued the letter No. 1080412260 in April 2019, requesting the Company to pay before June 30, 2019. The government claimed to have performed "2016 China Petroleum & Chemical Corporation Anshun Plant Remediation Site Supervision, Management and Checking Work Plan" on behalf of the Company, and request the Company to pay \$59,624 thousand in accordance with Article 14 (4) and Article 15 of the Soil and Groundwater Pollution Remediation Act (hereinafter referred to as the "Soil Pollution Law"). Based on the laws and regulations, the Company paid the aforementioned fees first within the time limit set by the Tainan City Government, and filed an administrative appeals in May of the same year, and this case is still in the petition process.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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- 2) Tainan city government claimed that the Company did not implement per the remediation process.
 - a) Tainan City Government issued a letter No. 105050004 for administrative sanctions on May 23, 2016 and deemed that the Company did not execute the plan according to the remedy plan since the reduction rate of dioxin pollution was less than 41% in the soil and groundwater pollution inspection records, which violated the regulation paragraph 1 of Article 22 of the Soil and Groundwater Pollution Remediation Act (hereinafter referred to as the “Remediation Act”) and ordered the Company to pay a penalty of \$200 thousand according to subparagraph 3 of paragraph 2 of Article 38 of Remediation Act and the Company had to participate in environment seminars for 2 hours according to the provisions of Article 23, paragraph 2 of the Environmental Education Law. After verification, the previous punishment content was not audited at the time point of the remediation plan, which violated the punishment principle. The Company filed a petition in June 2016, which was rejected by Executive Yuan Environmental Protection Agency in October 2016. The Company was not satisfied, proposing the administrative litigation to Kaohsiung High Administrative court and received the rejection jurisdiction by court in July 2017. The Company proposed the appeal for the remedy in August of the same year per law, but Supreme Administrative Court rejected the Company’s request in January 2018. This case was determined to be closed.
 - b) Tainan city government, on May 23, 2016, required the Company to complete the correction (which means reducing the rate of dioxin pollution to 41%) prior to October 31, 2016 with letter No. 1050527601 and attached with No. 105050004 issued on May 19, 2016, otherwise; the Company would be subject to daily penalties. Since the Company violated the regulation paragraph 1 of Article 22, paragraph 2 of Article 38 of the Soil and Groundwater Pollution Remediation Act and paragraph 11 of Penalty criteria list, it was fined \$600 thousand and was ordered to participate in environment seminars for 4 hours (aforementioned \$200 thousand plus added \$400 thousand). After verification, the previous penalty was not audited at the time of the remediation plan, which violated the punishment principle and this case had necessary relation with the administrative sanction which of letter No. 105050004. The petition remedy was proposed per law in February 2017, which was rejected by Executive Yuan Department of Economic Affairs in May 2017. The Company had proposed the appeal for remedy in June of the same year. Through the rejection of the Company’s request by Kaohsiung High Administrative court in November of the same year, the Company had declared the appeal in December of the same year. The Supreme Administrative Court rejected the Company’s request on July 10, 2018. This case was determined to be closed.

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- c) Tainan city government, in June 2017, with the letter No. 1060630217 attached with sanction letter No. 106060012 determined the 3rd remediation change plan not proposed and took it as reason and imposed a penalty of \$1,000 thousand. After the verification, there is no ‘take it as’ term in Soil pollution law and Implementation rules, which violated the principle of administration. The petition remedy had been proposed in July 2017 and the rejection of petition was received in October of the same year. The Company proposed to Kaohsiung High Administrative court for the administrative remedy in December of the same year.
- d) The Tainan City Government issued the punishment notification No. 108040003 in April 2019 as a result of the concentration of the dioxin in the exhaust pipe test results not being lower than the standard set by the third change plan (less than 0.1ng-TEQ/Nm3) and would result in a fine of \$200 thousand. An administrative appeals was filed in May 2019 in accordance with the laws, and the Environmental Protection Agency of the Executive Yuan dismissed in July of the same year. The Company filed an administrative lawsuit in September of the same year. The case is currently in administrative court of the Tainan District Court.

3) Others

- a) The Company still objects to the adscription of pollution responsibility for AnShun land located in Tainan City Annan District and would continue to strive for the possible administrative and law remedy actively.

In view of the jurisdiction explanation No.714, which indicated whether the general successors of polluters bear the burden of remediation responsibilities, was not in the scope of the Soil and Groundwater Pollution Remediation Act. Also, considering the previous Taiwan Alkali Co. Ltd. was a state-owned enterprise, and the Anshun plant was controlled, supervised, and assigned operations and gained beneficially by the Ministry of Economic Affairs, Taiwan Provincial Government and CPC, such actions should be part of national behavior, yet, the resulting pollution and remediation was asked to be borne by the private legal person. The Company applied to the Tainan city government to determine the beginning of the actual pollution or potential perpetrators, and who should pay the relevant costs and penalties. The rejection was made by the Tainan City Government in November 2014. The Company filed a legal petition in December 2014 and the original disposal authorities revoked the original punishment in March 2014, hence, the Executive Yuan Environmental Protection Agency made the decision not to proceed with the case. The original disposal authorities revoked the previous punishment but simultaneously imposed a new one, the Company also filed a petition to the new punishment. The Company’s petition was decided not to proceed in August 2015 and the Company filed an administrative legal appeal instead, due to multiple errors, which was under hearing by the Kaohsiung High Administrative Court. Through the rejection of the Company’s request by Kaohsiung High Administrative court, the Company proposed the appeal for remedy in November 2017. This case is under hearing in Supreme Administrative Court.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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The cumulative fee of invested and estimated control and management cost and remediation fee was \$3,433,510 thousand as of December 31, 2019. The preceding remediation fee was estimated according to the current possible situations by the Company. However, unpredictable future events may cause large fluctuations in the total expected remediation fees. This will be closely monitored and evaluated by management.

b) **Anshun dormitory designated monuments case**

Original Kagakude Negai O Ka Corporation's dormitories of Tainan plant belonging to the Company was designated by the Tainan City Government, under the letter No. 1031053448A issued on November 17, 2014, as a municipal historic site. However, the administrative sanction has various areas of dispute, thus the Company was not satisfied with the judgment. Hence, the Company filed a legal petition for remedy in December 2014. The petition decision report from the Ministry of Culture revoked the designated land of the Company as a historical site including 4 parcels of land in August 2015. The Company appealed for the administrative remedy of the remaining areas, which is under hearing by the Supreme Court.

Xincun Land of Taiwan Alkali Co., Ltd.:

1) History

On the premise that the residents obeyed the agreement, the Company signed an agreement with the local communities that land within Feng Shan District, Kaohsiung City shall be granted free of charge for public use.

2) Extension legislation

Business inspector found that the land was occupied by residents that built illegal construction, which violated the agreement. After communicating with the residents multiple times, the situation still did not improve. To be responsible for asset management and reach the expectation of the Company's shareholders, the Company filed a legal appeal in February 2013 to require to the demolition of the illegal construction and return of the land. Kaohsiung District Court rejected the Company's petition. Due to the previous judgment, the Company filed a legal appeal for remedy in September 2014, which was rejected by the Kaohsiung High Court in July 2016. The Company filed the appeal for remedy to Supreme Court in August of same year and was under hearing in April 2019.

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Shulin Land of Taiwan Alkali Co., Ltd.:

1) History:

- a) No. 540, 541 and 543, Dongshan Section, Shulin District, Xinbei City and No. 489, Weiwang Section, Shulin Dist., New Taipei City 238, Taiwan including land originally belonging to Shulin plant of Taiwan Alkali Co. Ltd. Taiwan Alkali Co. Ltd., which established the plant in 1962 and closed the plant in 1975. The Executive Yuan Department of Economic Affairs in April 1983 ordered the government-owned Company which at the time was also a subsidiary of CPC to merge with Taiwan Alkali Co. Ltd.
- b) Then the plant was subsequently sold to CPC. The New Taipei City Government Environmental Protection Bureau, on August 16, 2010, announced the land as “soil pollution control site”.
- c) The New Taipei City Government Environmental Protection Bureau issued the letter No. 1000010000 in March 2011 declaring that the Company merging with Taiwan Alkali Co. Ltd. was regarded as the surviving company and shall take the responsibility for the rights and obligations of Taiwan Alkali Co. Ltd. for soil pollution remediation according to Article 75 of the R.O.C. Company Act and was deemed as the polluter and required to propose subsequent disposal and remediation.

Since the change of predetermined place of CPC’s warehouse, the relocation schedule had to be extended to November 15, 2017. The remediation work schedule was postponed so that the soil pollution control plan (change plan) of Shulin Land of former Taiwan Alkali Co., Ltd (part of the sites) was proposed in April 2017. New Taipei City Government sent the letter to agree for future reference on May 18, 2017. Because of the different dynamic factors for the predetermined place of CPC’s warehouse, the relocation process was extend to December 31, 2021, and the remediation work schedule had to be postponed. Therefore, the “soil pollution control plan (the 2nd change plan) of Shulin Land of former Taiwan Alkali Co., Ltd (part of the sites)” was proposed in August 2019, and New Taipei City Government agreed for future reference on August 16, 2019. The Company is now performing this project subject to the soil pollution control plan.

The relevant remediation expense of \$273,750 thousand was estimated and listed in 2011 according to financial accounting standards related regulations. However, it will be assessed to adjust for changes due to internal and external factors in future, which may result in significant differences on the entire remediation expense.

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(k) Intangible assets

The components of the costs of intangible assets, amortization, and impairment loss thereon for the years ended December 31, 2019 and 2018 were as follows:

	<u>Goodwill</u>	<u>Computer software</u>	<u>Patents and trademark</u>	<u>Total</u>
Costs :				
Balance as of January 1, 2019	\$ 147,990	7,573	102,598	258,161
Acquisition in 2019	-	1,979	5,025	7,004
Disposals	-	(780)	-	(780)
Other	-	-	(6,535)	(6,535)
Effect of movement in exchange rates	(3,128)	(350)	(841)	(4,319)
Balance as of December 31, 2019	<u>\$ 144,862</u>	<u>8,422</u>	<u>100,247</u>	<u>253,531</u>
Balance as of January 1, 2018	\$ 5,444	5,233	68,389	79,066
Acquisition from business combination	-	908	50,883	51,791
Acquisition in 2018	143,679	1,579	141	145,399
Disposals	-	-	(16,815)	(16,815)
Effect of movement in exchange rates	(1,133)	(147)	-	(1,280)
Balance as of December 31, 2018	<u>\$ 147,990</u>	<u>7,573</u>	<u>102,598</u>	<u>258,161</u>
Amortization and Impairment Loss:				
Balance as of January 1, 2019	\$ -	2,073	68,027	70,100
Amortization for the period	-	1,193	5,690	6,883
Disposals	-	(457)	-	(457)
Effect of movement in exchange rates	-	(129)	(330)	(459)
Balance as of December 31, 2019	<u>\$ -</u>	<u>2,680</u>	<u>73,387</u>	<u>76,067</u>
Balance as of January 1, 2018	\$ -	1,089	53,639	54,728
Acquisition from business combination	-	59	8,434	8,493
Amortization for the period	-	945	12,332	13,277
Disposals	-	-	(6,378)	(6,378)
Effect of movement in exchange rates	-	(20)	-	(20)
Balance as of December 31, 2018	<u>\$ -</u>	<u>2,073</u>	<u>68,027</u>	<u>70,100</u>
Carrying value:				
Balance as of December 31, 2019	<u>\$ 144,862</u>	<u>5,742</u>	<u>26,860</u>	<u>177,464</u>
Balance as of January 1, 2018	<u>\$ 5,444</u>	<u>4,144</u>	<u>14,750</u>	<u>24,338</u>
Balance as of December 31, 2018	<u>\$ 147,990</u>	<u>5,500</u>	<u>34,571</u>	<u>188,061</u>

As of December 31, 2019 and 2018, the aforesaid intangible assets were not pledged as collateral.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(l) Short-term loans

The details, terms and conditions of short-term loans were as follow:

December 31, 2019				
	Currency	Interest Rate Range	Year of Expiration	Amount
Unsecured bank loans-the Company	NTD	1.400%~1.620%	2020	\$ 2,050,000
Letters of credit loans-the Company	NTD	1.330%~1.943%	2020	1,050,558
Secured bank loans-Weicai (Original name: Huijie)	CNY	4.785%~5.8725%	2020	383,590
Total				<u><u>\$ 3,484,148</u></u>

December 31, 2018				
	Currency	Interest Rate Range	Year of Expiration	Amount
Unsecured bank loans-the Company	NTD	1.38%~1.814%	2019	\$ 600,000
Letters of credit loans-the Company	NTD	1.4945%	2019	50,000
Secured bank loans-Weicai (Original name: Huijie)	CNY	5.655%~5.9%	2019	263,732
Total				<u><u>\$ 913,732</u></u>

As of December 31, 2019 and 2018, the Company was granted by banks short-term credit lines of \$6,100,000 thousand and \$6,650,000 thousand, of which \$1,614,920 thousand and \$3,565,104 thousand, respectively, were unused.

As of December 31, 2019 and 2018, the subsidiaries were granted by banks short-term credit lines of \$130,000 thousand, CNY89,000 thousand and USD6,000 thousand, and \$130,000 thousand, CNY59,000 thousand and USD6,000 thousand, respectively, of which \$130,000 thousand and USD6,000 thousand were unused.

(m) Long-term loans

The details, terms and conditions of long-term loans were as follow:

December 31, 2019				
	Currency	Interest Rate Range	Year of Expiration	Amount
Secured bank loans-the Company	NTD	1.4700%~1.9556%	2020~2022	\$ 4,830,000
Secured bank loans-Weihua	CNY	4.900%~5.057%	2024	254,415
Secured bank loans-Weiming	CNY	4.900%~5.488%	2023~2026	<u>3,399,498</u>
Subtotal				8,483,913
Less: current portion				<u>(1,762,130)</u>
Total				<u><u>\$ 6,721,783</u></u>

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018			
	Currency	Interest Rate Range	Year of Expiration	Amount
Secured bank loan-the Company	NTD	1.43%~1.9556%	2019~2021	\$ 2,480,000
Secured bank loan-Weicai (Original name: Huijie)	CNY	6.2225%	2019	178,801
Secured bank loans- Weihua	CNY	4.9%~5.047%	2024	300,569
Secured bank loans- Weiming	CNY	5.047%~5.488%	2023	<u>1,714,560</u>
Subtotal				4,673,930
Current				<u>(863,801)</u>
Total				<u><u>\$ 3,810,129</u></u>

On February 2, 2016, the Company signed a syndicated loan agreement for 5 years with Mega International Commercial Bank, the lead bank of the syndicated loan, and 7 other banks in order to raise funds to build the plant and accessory equipment and meet funding requirement. The aggregate amount of credit line of the syndicated loan was \$4,350,000 thousand.

- (i) Syndicated loan A: The credit line is \$2,900,000 thousand consisting of medium-term secured loans and non-revolving credit facility, which were used to finance the building of plants and purchase of accessory equipment.
- (ii) Syndicated loan B: The credit line is \$1,450,000 thousand consisting of medium-term loans and revolving credit facility, which were used to meet funding requirements.
- (iii) The financial covenants under the loan agreement include the requirement to maintain certain financial ratios based on the reviewed semi-annual consolidated financial report and audited annual consolidated financial reports. If the Company breaches these financial covenants, the syndicated banks may declare the unpaid principal, interest, fees and other sums payable by the Company under the loan agreement to be immediately due and payable. These financial ratios are as follows:
 - 1) Current ratio (total current assets divided by total current liabilities): not lower than 100%.
 - 2) Leverage ratio (total liabilities plus contingent liabilities to tangible net worth): not higher than 100%.
 - 3) Times interest earned (income before tax plus depreciation expense plus amortization expense divided by interest expenses): not lower than 2 times.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iv) In the event that there is a financial ratio violation in any of the fiscal years, the period from the announcement of the consolidated financial report that does not comply with the financial commitments to the announcement date of the next consolidated financial report shall be the improvement period. If the borrower resolves the violation during the improvement period, it is not considered a breach of financial commitment. However, the borrower shall, from the date of the announcement of the consolidated financial report that does not comply with the financial commitment, to the date of interest payable after the expiration of the improvement period, the credit balance of credit cases, in accordance with Article 7 (3) of this contract, the applicable interest rate plus the annual interest rate of 0.05% is charged to interest. If the improvement is not completed within the time limit, from the expiration date of the improvement period, the next interest payable date after the date on which the borrower has filed a consolidated financial report meeting the financial commitments, for the credit balance of this credit, the interest rate shall be calculated based on the contract interest rate plus the annual interest rate of 0.05%, and may be handled in accordance with the breach of contract.
- (v) The term of the repayment of the category A credit is stipulated as: The first period will be paid off from the date of the first use of the credit application to the expiration of three years. After that, it will be a period of six months for once. Settlement of the liability divided into five phases. The first period to the fourth period, each period shall be settled separately for 15% of the outstanding principal balance of the expiration date of the credit period, and the fifth period shall be settled for 40% of the outstanding principal balance of the expiration date of the credit period.
- (vi) The term of payment of the category B credit is stipulated as: The borrower shall fully repay on the due date as set out in each application for use.

As of December 31, 2019 and 2018, unused credit lines amounted to \$0 thousand and \$2,250,000 thousand, respectively. Please refer to Note 8 for details of the related assets pledged as collateral.

The Company signed contracts for secured bank credit facilities in order to finance its operation. As of December 31, 2019 and 2018, the total credit lines were \$1,630,000 thousand and \$1,200,000 thousand, respectively. Credit facilities of \$1,350,000 thousand and \$380,000 thousand, respectively were used. The unused amounted to \$280,000 thousand and \$820,000 thousand, respectively. The current portion of the long-term bank loans obtained from such credit facilities amounted to \$500,000 thousand and \$380,000 thousand, respectively. Please refer to Note 8 for details of the related assets pledged as collateral.

As of December 31, 2019 and 2018, the subsidiaries were granted by banks long-term credit lines of CNY1,190,000 thousand and CNY900,000 thousand of which CNY159,617 thousand and CNY400,134 thousand were unused. Please refer to Note 8 for details of the related assets pledged as collateral.

Please refer to Note 8 for details of the related assets pledged as collateral.

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Notes to the Consolidated Financial Statements

(n) Long-term bills payable

The components of long-term bills payable were as follows:

December 31, 2019			
	Acceptance institution	Period	Amount
Bills payable	China Bills Finance Corporation	2019.11.15~2020.02.13	\$ 650,000
Bills payable	China Bills Finance Corporation	2019.12.23~2020.03.23	500,000
Bills payable	International Bills Finance Corporation	2019.12.24~2020.03.23	200,000
Bills payable	Taching Bills Finance Corporation	2019.12.26~2020.02.24	350,000
Bills payable	Taching Bills Finance Corporation	2019.11.20~2020.02.18	50,000
Bills payable	Mega Bills Finance Corporation	2019.11.05~2020.01.03	500,000
Bills payable	Mega Bills Finance Corporation	2019.11.13~2020.01.13	450,000
Bills payable	Mega Bills Finance Corporation	2019.11.14~2020.02.12	250,000
Bills payable	Mega Bills Finance Corporation	2019.11.14~2020.02.12	400,000
Bills payable	Mega Bills Finance Corporation	2019.11.19~2020.01.13	150,000
Bills payable	Mega Bills Finance Corporation	2019.11.22~2020.02.12	200,000
Bills payable	Mega Bills Finance Corporation	2019.12.20~2020.02.18	200,000
Bills payable	Mega Bills Finance Corporation	2019.12.20~2020.03.19	600,000
			4,500,000
Less: Discount on long-term bills payable			(5,823)
Total			<u><u>\$ 4,494,177</u></u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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December 31, 2018			
	Acceptance institution	Period	Amount
Bills payable	China Bills Finance Corporation	2018.11.09~2019.01.08	\$ 100,000
Bills payable	China Bills Finance Corporation	2018.11.16~2019.01.15	50,000
Bills payable	International Bills Finance Corporation	2018.11.30~2019.01.18	50,000
Bills payable	Taching Bills Finance Corporation	2018.11.26~2019.02.25	50,000
Bills payable	Mega Bills Finance Corporation	2018.12.20~2019.03.20	100,000
			350,000
Less: Discount on long-term bills payable			(271)
Total			\$ 349,729

The Company had revolving commercial promissory note agreements with bills finance companies in order to finance its operations. As of December 31, 2019 and 2018, the bills payable bear interest rates ranged from 0.55%~1.3400% and 0.5%~1.1513%, respectively.

Please refer to Note 8 for details of the related assets pledged as collateral.

(o) Lease liabilities

The lease liabilities of the Group were as follows:

	December 31, 2019
Current	\$ 49,911
Non-Current	\$ 203,332

There were no significant issues, repurchases and repayments of lease liabilities for the year ended December 31, 2019.

The amounts recognized in profit or loss were as follows:

	For the years ended December 31, 2019
Interest on lease liabilities	\$ 4,875
Expense relating to short-term leases	\$ 41,731

The amounts recognized in the statement of cash flows for the Group were as follows:

	For the years ended December 31, 2019
Total cash outflow for leases	\$ 61,653

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Notes to the Consolidated Financial Statements

(p) Provisions

	<u>Decommissioning</u>	<u>Remediation project</u>	<u>Employee benefits</u>	<u>Total</u>
Balance as of January 1, 2019	\$ 1,267,220	967,414	237,821	2,472,455
Provisions made during the year	498	-	32,231	32,729
Provisions used during the year	(1,910)	(363,442)	(13,341)	(378,693)
Provisions reversed during the year	-	-	107	107
Effect of movements in exchange rate	(1,806)	-	-	(1,806)
Balance as of December 31, 2019	<u><u>\$ 1,264,002</u></u>	<u><u>603,972</u></u>	<u><u>256,818</u></u>	<u><u>2,124,792</u></u>
Current	\$ -	151,417	6,145	157,562
Non-current	<u>1,264,002</u>	<u>452,555</u>	<u>250,673</u>	<u>1,967,230</u>
	<u><u>\$ 1,264,002</u></u>	<u><u>603,972</u></u>	<u><u>256,818</u></u>	<u><u>2,124,792</u></u>
Balance as of January 1, 2018	\$ 1,269,971	1,087,851	253,869	2,611,691
Provisions made during the year	-	-	9,870	9,870
Provisions used during the year	-	(120,437)	(24,232)	(144,669)
Provisions reversed during the year	-	-	(1,686)	(1,686)
Effect of movements in exchange rate	(2,751)	-	-	(2,751)
Balance as of December 31, 2018	<u><u>\$ 1,267,220</u></u>	<u><u>967,414</u></u>	<u><u>237,821</u></u>	<u><u>2,472,455</u></u>
Current	\$ -	473,629	6,542	480,171
Non-current	<u>1,267,220</u>	<u>493,785</u>	<u>231,279</u>	<u>1,992,284</u>
	<u><u>\$ 1,267,220</u></u>	<u><u>967,414</u></u>	<u><u>237,821</u></u>	<u><u>2,472,455</u></u>

- (i) To comply with the Order of the Tainan City Government, the Company submitted a remediation plan proposal and accrued relevant remediation plan for approval before June 30, 2008 and evaluated the relating remediation expense of \$1,647,200 thousand. In May 2009 and on July 2, 2012, the Company was granted official approval of its remediation proposal and amended remediation proposal, respectively. In September 2014, the Company completed the first phase of the implementation of its plan. It is expected to launch the second phase of the implementation of its remediation plan during the next decade. The Company has submitted the second phase of its amended remediation plan to the Tainan City Government for approval. On December 24, 2014, Tainan City Government notified the Company of its approval and now is under public tender review. The aforementioned remediation costs of the Company were recognized in the total amount of \$1,600,000 thousand for the first stage before September 2014. With the launch of the second remediation stage, the Company estimated the cost based on the situation on December 2014 at \$1,356,000 thousand. Currently, the Tainan City Environmental Protection Bureau reviewed and adopted the plan on April 14, 2015 and the assessment was announced by Tainan City Government on May 4, 2015. According to the remediation technology and the actual implementation of the subsequence adjustment, the 3rd remediation change plan was proposed on March 2, 2017, which was reviewed and adopted on January 3, 2018. Please refer to note 6(j) for more information.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (ii) 1) The Company's four parcels of land at Dongshan section, Shulin district, New Taipei City were the original location of TAIC's Shulin plants, but then sold to the Taiwan Chinese Petroleum Corporation (CPC). On August 16, 2010, the Environmental Protection Department of New Taipei City Government declared that such land as "Soil Pollution Control Site". In March 2011, the Environmental Protection Department of New Taipei City Government issued letter No. 1000010000. In that letter, the Company was deemed to be the surviving entity, which assumed the rights and obligations of TAIC following its merger with TAIC and TAIC ceased to exist. As the surviving entity from this merger, the Company was therefore declared as the polluter and was required to submit a remedial plan.
- 2) Since the change of predetermined place of CPC's warehouse, the relocation schedule had to be extended to November 15, 2017. The remediation work schedule was postponed so that the soil pollution control plan (change plan) of Shulin Land of former Taiwan Alkali Co., Ltd (part of the sites) was proposed in April 2017. New Taipei City Government sent the letter to agree for future reference on May 18, 2017. Because of the different dynamic factors for the predetermined place of CPC's warehouse, the relocation process was extended to December 31, 2021 and the remediation work schedule had to be postponed. Therefore, the "soil pollution control plan (the 2nd change plan) of Shulin Land of former Taiwan Alkali Co., Ltd (part of the sites)" was proposed in August, 2019, and New Taipei City Government agreed for future reference on August 16, 2019. The Company is now performing this project subject to the soil pollution control plan. However, it will be assessed to adjust for changes due to internal and external factors in future, which may result in significant differences on the entire remediation expenses

(q) Operating lease

The Group leases its property, plant and equipment under operating leases. The future minimum lease receivable under these non-cancellable operating leases were as follows:

	December 31, 2019	December 31, 2018
Less than one year	\$ 20,125	16,094
Between one and five years	132,222	19,904
Over five years	291,949	38,019
	<u>\$ 444,296</u>	<u>74,017</u>

For the years ended December 31, 2019 and 2018, the income from the rental of property, plant and equipment amounted to \$18,232 thousand and \$18,569 thousand, respectively.

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(r) Employee benefits

(i) Defined benefit plans

Reconciliation of defined benefit obligation at present value and plan asset at fair value were as follows:

	December 31, 2019	December 31, 2018
Present value of funded defined benefit obligation	\$ 541,718	594,797
Fair value of plan assets	(301,251)	(369,809)
Net defined benefit liabilities	\$ 240,467	224,988

The provision consists of net defined benefit liabilities and accrued pension liabilities for professional management. The accrued pension liabilities for professional management was \$9,764 thousand and \$5,759 thousand as of December 31, 2019 and 2018, respectively.

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan and provides pensions for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$301,251 thousand as of December 31, 2019. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movement in present value of the defined benefit obligations

The movement in present value of the defined benefit obligations for the Group were as follows:

	For the years ended December 31, 2019	2018
Defined benefit obligation, January 1	\$ 594,797	726,159
Benefits paid from plan assets	(98,680)	(151,121)
Current service costs and interest	18,279	24,703
Past service credit	-	(2,638)
Re-measurements of the net defined benefit liability (assets)	27,322	(2,306)
Defined benefit obligation, December 31	\$ 541,718	594,797

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Movement of defined benefit plan assets

The movement in the present value of the defined benefit plan assets for the Group were as follows:

	For the years ended December 31,	
	2019	2018
Fair value of plan assets, January 1	\$ 369,809	481,805
Employer contributions	11,123	11,578
Benefits paid by the plan	(98,680)	(144,241)
Expected return on plan assets	3,901	6,242
Re-measurements of the net defined benefit liability	15,098	14,425
Fair value of plan assets, December 31	\$ 301,251	369,809

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group were as follows:

	For the years ended December 31,	
	2019	2018
Current service cost	\$ 11,912	15,231
Past service cost	-	(2,638)
Net interest on net defined benefit liability	2,466	3,230
	\$ 14,378	15,823
Operating costs	\$ 13,023	16,579
Selling expenses	125	(1,053)
Administrative expenses	1,064	289
Research and development expenses	166	8
	\$ 14,378	15,823
Actual return on plan assets	\$ 18,997	20,667

5) Remeasurement of net defined benefit liability (asset) recognized in other comprehensive income

The Group's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2019 and 2018, was as follows:

	For the years ended December 31,	
	2019	2018
Accumulated balance, January 1	\$ (138,324)	(155,055)
Recognized during this year	(12,224)	16,731
Accumulated balance, December 31	\$ (150,548)	(138,324)

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	For the years ended December 31,	
	2019	2018
Discount rate	1%	0.75~1.125%
Future salary increases	1%~1.5%	0.3~1.5%

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is \$10,143 thousand.

The weighted average lifetime of the defined benefits plans is 1.00 year~ 13.18 years.

7) Sensitivity analysis

In determining the present value of the defined benefit obligation, the Group's management makes judgments and estimates in determining certain actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions may have significant impact on the amount of defined benefit obligation.

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Impact on the present value of defined benefit obligation	
	Increase by 0.25%	Decrease by 0.25%
December 31, 2019		
Discount rate	\$ (13,765)	14,328
Increase in future wage	13,974	(13,498)
December 31, 2018		
Discount rate	(11,116)	32,617
Increase in future wage	32,269	(10,854)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2019 and 2018 amounted to \$50,649 thousand and \$43,210 thousand, respectively.

(iii) The pension costs incurred from the contributions to the Bureau of the Labor Insurance amounted to \$6,234 thousand and \$5,759 thousand for the year ended December 31, 2019 and 2018, respectively.

(iv) Short-term compensated absences liabilities

As of December 31, 2019 and 2018, the Group's short-term compensated absences liabilities amounted to \$6,145 thousand and \$6,542 thousand, respectively.

(s) Income Tax

(i) Income tax expense

The components of income tax expense for the years ended December 31, 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Current income tax expense		
Currently incurred	\$ (117,556)	(395,359)
Adjustment to prior year's income tax charged to current income tax	(12,281)	(596)
	<u>(129,837)</u>	<u>(395,955)</u>
Deferred tax expense		
The origination and reversal of temporary differences	470,679	(570,690)
Unrecognized changes of deductible temporary differences	(470,679)	570,690
	<u>-</u>	<u>-</u>
Income tax expense	<u><u>\$ (129,837)</u></u>	<u><u>(395,955)</u></u>

For the years ended December 31, 2019 and 2018, income tax expenses recognized under other comprehensive income were both \$0 thousand.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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Reconciliation of income tax and profit before tax for the years ended December 31, 2019 and 2018, were as follows:

	For the years ended December 31,	
	2019	2018
Profit (loss) before income tax	<u>\$ 1,863,472</u>	<u>4,676,950</u>
Income tax on pre-tax financial income calculated at the domestic rate	\$ (384,110)	(971,773)
Tax-free income	577	1,479
Income basic tax	(26,879)	-
Recognition of previously unrecognized tax gain	31	-
Unrecognized deferred tax assets	(490,711)	564,986
Changes of permanent differences	835,627	358,215
Prior years income tax adjustment	(12,281)	(596)
Undistributed earnings additional tax	<u>(52,091)</u>	<u>(348,266)</u>
Income tax expense	<u>\$ (129,837)</u>	<u>(395,955)</u>

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

	December 31, 2019	December 31, 2018
Decommissioning liabilities	\$ 82,663	71,366
Remediation project	239,143	239,744
Pollution remediation	364,829	727,670
Allowance for doubtful receivables	319,484	319,484
Investment property, property, plant and equipment	3,565,240	782,907
Pension	1,322	(641)
Tax loss	5,336,109	6,192,964
Others	<u>378,486</u>	<u>465,528</u>
	<u>\$ 10,287,276</u>	<u>8,799,022</u>

As of December 31, 2019, the expiration years of tax loss unrecognized as deferred tax assets were as follows:

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

a) The Company

<u>Year incurred</u>	<u>Amount</u>	<u>Expiry Date</u>
2014	\$ 353,570	2024
2015	2,132,246	2025
2016	1,815,587	2026

b) Taivex Therapeutics Inc.

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2010	\$ 14,388	2020
2011	16,878	2021
2012	29,657	2022
2013	50,227	2023
2014	27,419	2024
2015	43,032	2025
2016	44,291	2026
2017	54,764	2027
2018	79,334	2028
2019(estimated)	64,909	2029

c) BES Twin Towers Co., Ltd.

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2013	\$ 10,195	2023
2014	44,139	2024
2018	445,328	2028

d) CPDC Green Technology Corp.

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2016	\$ 5,646	2026
2017	30,267	2027
2018	38,057	2028
2019(estimated)	38,444	2029

e) Weihua (Rudong) Trade Co., Ltd

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2015	\$ 25,772	2020
2016	45,087	2021
2017	22,092	2022

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

f) Weiqiang International Trade (Shanghai) Co., Ltd.

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2014	\$ 2,812	2019
2015	17,547	2020
2016	20,761	2021

g) Weida (zhangzhou) Consultant Service Co., Ltd.

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2015	\$ 1,042	2020
2016	1,145	2021
2017	1,414	2022
2018	282	2023
2019(estimated)	31	2024

h) Jiangsu Weiming Petrochemical Corporation

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2017	\$ 46,843	2022
2018	20,510	2023
2019(estimated)	175,560	2024

i) Zhangzhou Weida Petrochemical Co.,Ltd

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2015	\$ 559	2020
2016	2,025	2021
2017	1,953	2022
2018	5,717	2023
2019(estimated)	1,654	2024

j) Kunshan Weiqin Management consultant Co., Ltd

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2016	\$ 1,325	2021
2017	6,189	2022
2018	9,291	2023
2019(estimated)	5,071	2024

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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- k) Changzhou Weicai New Material Science and Technology Co., Ltd (Original name: Huijie)

<u>Year incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2015	\$ 405	2020
2016	282,336	2021
2017	214,252	2022
2018	185,026	2023
2019(estimated)	51,248	2024

- 2) Deferred tax liabilities:

As of December 31, 2019 and 2018, the balance of deferred income tax liabilities for the provision of land value-added tax were \$7,020,975 thousand and \$8,758,989 thousand, respectively.

- 3) Deferred tax assets:

	<u>Taxable Loss</u>	<u>Defined benefit plans</u>	<u>Total</u>
January 1, 2019	\$ 11,009	14	11,023
December 31, 2019 (equal to January 1)	<u><u>\$ 11,009</u></u>	<u><u>14</u></u>	<u><u>11,023</u></u>
January 1, 2018	\$ 9,358	14	9,372
Recognition in profit or loss	1,651	-	1,651
December 31, 2018 (equal to January 1)	<u><u>\$ 11,009</u></u>	<u><u>14</u></u>	<u><u>11,023</u></u>

- (iii) Assessment of tax

The Company's income tax return for the years through 2017 were assessed by the Tax Administration.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Capital and other equity

(i) The issuance of common stock

As of December 31, 2019 and 2018, the authorized, issued and outstanding capital of the Company amounted to \$28,348,502 thousand and \$26,998,573 thousand, respectively, divided into 2,834,850 thousand shares and 2,699,857 thousand shares, respectively, with par value of \$10 (NT dollars) per share.

(In thousands of shares)

	Common Stock	
	For the years ended December 31,	
	2019	2018
Balance, January 1	2,699,857	2,699,857
Capital increased by retained earnings	134,993	-
Balance, December 31	<u>2,834,850</u>	<u>2,699,857</u>

On May 24, 2019, a resolution was made during the shareholders' meeting for the issuance of 134,993 thousand new ordinary shares, by using the unappropriated retained earnings, amounting to \$1,349,929 thousand, which had been approved by the Financial Supervisory Commission on May 30, 2019, with the record date set at July 4, 2019, based on the decision made during the board meeting held on June 11, 2019. The relevant registration procedures have been completed as of December 31, 2019.

(ii) Capital Surplus

The balances of capital surplus as of December 31, 2019 and 2018, were as follows:

	December 31, 2019	December 31, 2018
Premium of common stock	\$ 1,242,245	1,242,245
Difference arising from subsidiary's share price and its carrying value	26,314	-
Other	18,141	18,141
Total	<u>\$ 1,286,700</u>	<u>1,260,386</u>

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(iii) Retained earnings

The Company distributes dividends depending on the level of earnings of each year, funding needs, industrial environment, and status of competition, long-term operating plan and interests of shareholders. Under such circumstances, the Company may appropriate for special reserve either in whole or in part to assure financial stability and sustainability. The Company may distribute dividends in cash or stock. If the earnings distribution is made in the form of by stock dividend, the ratio for the stock dividend shall not exceed 50% of the total distribution unless the ratio of the Company's total liabilities to total assets is equivalent or above 50% or otherwise prescribed in relevant laws and regulations.

1) Legal reserve

According to the amendment of the R.O.C. Company Act, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

By adopting the exemptions allowed under IFRS 1 First-time Adoption of International Financial Reporting Standards during the Company's first-time adoption of the International Financial Reporting Standards approved by the Financial Supervisory Commission (IFRSs), unrealized asset revaluation gains in shareholders' equity of \$5,281,790 thousand was reclassified to retained earnings. The net increase in retained earnings due to the first-time adoption of IFRSs amounted to \$4,235,076 thousand. In accordance with Rule No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a special reserve is appropriated from the distribution of retained earnings as a result of an increase in retained earnings due to the first-time adoption of IFRSs. When the related assets are used, disposed of, or reclassified, this special reserve is reversed as distributable earnings proportionately. The carrying amount of special reserve amounted to \$4,235,076 thousand as of December 31, 2019 and 2018.

In 2014, the Group changed the subsequent measurement of investment properties from cost model to fair value model. In accordance with Rule No. 1030006415 issued by the Financial Supervisory Commission on March 18, 2014, on the first-time adoption of fair value model for the subsequent measurement of investment properties, the Group set aside an equal amount of special reserve when the fair value increment of investment properties is transferred to retained earnings. The Group appropriated to the special reserve an amount of \$21,224,233 thousand as of December 31, 2013. The company held a shareholder meeting on June 8, 2017, in order to use the special reserve amounted to \$1,958,584 thousand to cover accumulated deficits. On April 11, 2018, the Company's shareholders resolved during their meeting, to reimburse \$1,958,584 thousand into the special reserve. The carrying amount of such special reserve amounted to \$21,224,233 thousand as of December 31, 2019 and 2018, respectively.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For every year the Company distributes earnings, a special reserve is appropriated in the following order:

- a) Each year, a special reserve is appropriated from current year's net income and prior years' undistributed earnings for the same amount as the net increase in the fair value of investment property using the fair value model. A special reserve is also appropriated for the same amount as the cumulated net increase in the fair value for the year when the undistributed earnings are not distributed. When the investment property is disposed of, this special reserve is reverted proportionately to distributable earnings. As of December 31, 2019 and 2018, the Company appropriated to the special reserve an amount of \$5,835,980 thousand and \$3,867,293 thousand, respectively.
 - b) In accordance with Rule No. 1010047490 issued by the Financial Supervisory Commission on November 21, 2012, a special reserve is appropriated by the parent company for the difference between market value and book value of parent company shares being held by a subsidiary times the percentage of the parent company's equity investment in the said subsidiary, if the stock price of the parent company is lower than the its value. If the market value recovers subsequently, this special reserve is reverted proportionately to distributable earnings.
 - c) In accordance with Rule No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings is appropriated as a special reserve during earnings distribution. Such appropriation of special reserve is based on the difference between the total net amount of contra accounts in the shareholders' equity and the carrying amount of special reserve. Similarly, a portion of undistributed prior period earnings (which does not qualify for earnings distribution) is likewise appropriated as a special reserve on account of cumulative changes to other shareholders' equity pertaining to prior periods. The subsequent reversals of the contra accounts in the shareholders' equity shall qualify for additional earnings distributions.
- 3) Earnings Distribution

On May 4, 2019, the shareholders' meeting decided to appropriate the Company's 2018 earnings in cash and in shares, both in the amount of \$1,349,929 thousand. On April 11, 2018, the shareholders' meeting decided not to appropriate the Company's 2018 earnings.

On March 27, 2020, the Board of Directors proposed to appropriate the Company's 2019 earnings with a cash dividend of \$0.3 per share, totaling \$985,455 thousand.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Other equity accounts

	Exchange differences on foreign operation	Unrealized gain or loss on financial assets at fair value through other comprehensive income
Balance, January 1, 2019	\$ (488,212)	(1,248,499)
Exchange differences on foreign operation	(315,666)	-
Exchange difference on subsidiary accounted for using equity method	(117)	-
Exchange difference on affiliated accounted for using equity method	(520)	-
Unrealized gains from financial assets measured at fair value through other comprehensive income	-	127,853
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	410
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income for affiliated companies accounted for using equity method	-	(421)
Balance, December 31, 2019	<u><u>\$ (804,515)</u></u>	<u><u>(1,120,657)</u></u>
Balance, January 1, 2018	\$ (392,378)	(788,734)
Retrospective adjustments	-	(18,968)
Exchange differences on foreign operation	(74,880)	-
Exchange difference on subsidiary accounted for using equity method	161	-
Exchange difference on affiliated accounted for using equity method	(21,115)	-
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	-	(408,318)
Unrealized gains from financial assets measured at fair value through other comprehensive income for subsidiaries accounted for using equity method	-	31,082
Unrealized (losses) gains from financial assets measured at fair value through other comprehensive income for affiliated companies accounted for using equity method	-	(63,561)
Balance, December 31, 2018	<u><u>\$ (488,212)</u></u>	<u><u>(1,248,499)</u></u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(u) Earnings per share

The basic earnings per share and diluted earnings per shares for the years ended December 31, 2019 and 2018 were calculated as follows:

	For the years ended December 31,	
	2019	2018
Basic earnings per share (NT dollars)		
Profit attributable to ordinary shareholders	\$ <u>1,738,449</u>	<u>4,290,269</u>
Weighted-average number of ordinary shares (thousand shares)	<u>2,834,850</u>	<u>2,699,857</u>
Weighted-average number of ordinary shares-retrospective (thousand shares)		<u>2,834,850</u>
Basic earnings per share	\$ <u>0.61</u>	<u>1.59</u>
Basic earnings per share-retrospective		<u>1.51</u>
Diluted earnings per share (NT dollars)		
Profit attributable to ordinary shareholders (diluted)	\$ <u>1,738,449</u>	<u>4,290,269</u>
Weighted-average number of ordinary shares (thousand shares)	2,834,850	2,699,857
Effect of potentially dilutive ordinary shares of Employee stock bonus	5,894	13,371
Weighted-average number of ordinary shares (diluted) (thousand shares)	<u>2,840,744</u>	<u>2,713,228</u>
Weighted-average number of ordinary shares (diluted)-retrospective (thousand shares)		<u>2,848,221</u>
Diluted earnings per share	<u>0.61</u>	<u>1.58</u>
Diluted earnings per share-retrospective		<u>1.51</u>

(v) Revenue from contracts with customers

- (i) The Company primarily engages in the production of CPL, AN, Nylon and by-products and the storage, transportation, purchase and sale of these products, related chemicals and their raw materials. For the details of products and sales area, please refer to Note 14(b) and (c) of the consolidated financial statements.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(ii) Contract balances

	December 31, 2019	December 31, 2018
Notes receivable	\$ 506,380	687,341
Accounts receivable (including related parties)	1,644,359	2,399,163
Less: allowance for doubtful account	<u>(446,211)</u>	<u>(450,421)</u>
	<u>\$ 1,704,528</u>	<u>2,636,083</u>
Contract liabilities	<u>\$ 88,263</u>	<u>5,578</u>

Please refer to Note 6(z) for disclosure of accounts receivable and allowance for doubtful accounts.

The amounts of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the periods were \$5,578 thousand and \$5,253 thousand, respectively.

(w) Revenue

The detail of revenue were as followed:

	For the years ended December 31, 2019	2018
Sales of goods	<u>\$ 29,624,094</u>	<u>38,503,121</u>

(x) Remuneration of employees and directors

In accordance with the Articles of Incorporation, the Company should contribute no less than 3% of the profit as employee compensation and less than 2% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The remuneration of employees shall be in the form of cash or shares, whose recipients may include the employees of the Company's affiliated companies who meet certain conditions. The remuneration of directors may solely be cash. The aforesaid profit represents the income before income tax and remuneration for the period.

For the years ended December 31, 2019 and 2018, the remuneration to employees amounted to \$57,759 thousand and \$146,409 thousand, respectively, and the remuneration to directors amounted to \$38,506 thousand and \$97,606 thousand, respectively. These amounts were calculated using the Company's income before income tax before remuneration of employees and directors for the years ended December 31, 2019 and 2018. These benefits were charged to profit or loss under operating costs or operating expenses for the years ended December 31, 2019 and 2018. When the Board of Directors decided to distribute stock dividends, the number of which shall be calculated based on the closing price of the Company's ordinary shares one day before the date of the meeting of Board of Directors.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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The appropriated amount of remuneration of employees and directors was amounted to \$72,812 thousand and \$72,812 thousand for the year ended December 31, 2018. The actual distribution of the employee remuneration was \$72,812 thousand; while the amount for directors was identical to those stated on the financial statements. Related information is available on the Market Observation Post System website.

(y) Non-operating income and expense

(i) Other income

The components of other income for the years ended December 31, 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Interest income	\$ 123,028	197,636
Rent income	18,232	18,569
Dividend income	303,466	647,745
Other income, others	275,474	180,535
	\$ 720,200	1,044,485

(ii) Other gains and losses

The components of other gains and losses for the years ended December 31, 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Losses on disposals of property, plants, and equipment	\$ (2,560)	(6,998)
Losses on disposal of investments	-	6,094
Gain on amendment of lease	5	-
Foreign exchange losses	(16,293)	(1,063)
Gains on fair value adjustment, investment property	112,421	119,574
Fee expense	(50,114)	(51,443)
Losses on work stoppages	(35,932)	(425,116)
Other losses	(38,798)	(134,983)
	\$ (31,271)	(493,935)

(iii) Finance costs

The components of finance costs for the years ended December 31, 2019 and 2018 were as follows:

	For the years ended December 31,	
	2019	2018
Interest expense	\$ (140,459)	(79,516)
	\$ (140,459)	(79,516)

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(z) Financial Instruments

(i) Categories of financial instruments

1) Financial assets

	December 31, 2019	December 31, 2018
Financial assets at fair value through profit or loss	\$ 10,726,174	6,162,171
Financial assets at fair value through other comprehensive income	2,360,040	2,229,968
Loans and receivables:		
Cash and cash equivalents	9,116,253	13,469,938
Notes receivable, accounts receivable and other receivables	1,958,307	2,754,465
Other assets	<u>147,766</u>	<u>131,493</u>
Total	<u>\$ 24,308,540</u>	<u>24,748,035</u>

2) Financial liabilities

	December 31, 2019	December 31, 2018
Short-term loans	\$ 3,484,148	913,732
Long-term bank loans-current portion	1,762,130	863,801
Payables	2,286,796	3,871,583
Long-term bank loans	6,721,783	3,810,129
Long-term bills payable	4,494,177	349,729
Lease liabilities	253,243	-
Other liabilities	<u>121,339</u>	<u>149,012</u>
Total	<u>\$ 19,123,616</u>	<u>9,957,986</u>

(ii) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure. As of December 31, 2019 and 2018, the maximum exposures to credit risk amounted to \$24,308,540 thousand and \$24,748,035 thousand, respectively.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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2) The concentration of credit risk

The sales of the Group are significantly concentrated in a small number of customers. For the years ended December 31, 2019 and 2018, 83% and 84%, respectively, of the total amount of accounts receivable was owed by 10 customers and 11 customers, respectively. Under the Group's credit policy, customers are requested to provide the Group certain financial information such as audited financial report, or other related documents for purposes of evaluating their credit worthiness. Credits are granted to these customers according to the result of the Group's credit evaluation. Those customers who do not satisfy the requirements shall not be offered credit.

3) Impairment losses

The Group uses a simple method to evaluate expected credit loss for notes receivable and accounts receivable, which means using the existing life time to measure the expected credit loss. For the purpose of measuring, the notes receivable and accounts receivable are grouped based on the characteristic of mutual credit risk, which is the ability for customers to honor the contract and be able to settle the receivables when due. Expected losses of the receivables on December 31, 2019 and 2018 were as follows:

December 31, 2019			
	Carrying amount of account receivables	Weighted average expected credit loss	Allowance for expected credit loss
Not past due	\$ 1,771,188	0%	93,695
Over 0~30 days	19,702	1.41%	278
Over 31~120 days	7,993	4.78%	382
Past due more than 1 year	<u>351,856</u>	100%	<u>351,856</u>
	<u><u>\$ 2,150,739</u></u>		<u><u>446,211</u></u>
December 31, 2018			
	Carrying amount of account receivables	Weighted average expected credit loss	Allowance for expected credit loss
Not past due	\$ 2,722,338	0~4%	95,217
Over 0~30 days	733	-	-
Over 31~120 days	7,320	-	-
Over 121~365 days	909	-	-
Past due more than 1 year	<u>355,204</u>	100%	<u>355,204</u>
	<u><u>\$ 3,086,504</u></u>		<u><u>450,421</u></u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years
December 31, 2019							
Non-derivative financial liabilities							
Accounts payable	\$ 1,316,369	1,316,369	1,316,369	-	-	-	-
Other payables	964,305	964,305	850,590	113,715	-	-	-
Other financial liabilities – current	6,122	6,122	6,122	-	-	-	-
Other non-current liabilities – other	121,339	121,339	105,359	9,480	4,685	315	1,500
Floating-rate loans	2,216,200	2,252,804	537,000	529,258	1,186,546	-	-
Fixed-rate loans	9,751,861	10,324,036	3,709,309	518,090	2,163,728	3,795,714	137,195
Long-term bills payable	4,494,177	4,500,000	-	-	4,500,000	-	-
	<u>\$ 18,870,373</u>	<u>19,484,975</u>	<u>6,524,749</u>	<u>1,170,543</u>	<u>7,854,959</u>	<u>3,796,029</u>	<u>138,695</u>
December 31, 2018							
Non-derivative financial liabilities							
Accounts payable	\$ 1,848,774	1,848,774	1,848,774	-	-	-	-
Other payables	1,718,537	1,718,537	1,528,979	189,558	-	-	-
Other financial liabilities – current	11,282	11,282	11,282	-	-	-	-
Other non-current liabilities – other	110,735	110,735	99,201	9,023	226	765	1,520
Floating-rate loans	1,550,000	1,607,245	411,652	210,987	421,974	562,632	-
Fixed-rate loans	4,037,662	4,591,889	867,678	316,672	100,394	2,388,072	919,073
Long-term bills payable	349,729	350,000	350,000	-	-	-	-
	<u>\$ 9,626,719</u>	<u>10,238,462</u>	<u>5,117,566</u>	<u>726,240</u>	<u>522,594</u>	<u>2,951,469</u>	<u>920,593</u>

(iv) Currency risk

1) Currency risk exposure

The Group's exposures to significant currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

	December 31, 2019			December 31, 2018		
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 51,573	30.036	1,554,461	83,697	30.710	2,570,357
EUR	2,002	33.640	67,344	-	-	-
VND	1,324,699,288	0.0013	1,722,108	547,757,982	0.0013	725,068
MMK	203,235	0.0203	4,126	567,650	0.0199	11,353
CNY	627,090	4.310	2,702,755	1,034,171	4.470	4,622,754
INR	17,195	0.4281	7,253	-	-	-
<u>Long-term share investment using equity method</u>						
USD	30,002	30.036	901,116	30,320	30.710	931,121

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Notes to the Consolidated Financial Statements

	December 31, 2019			December 31, 2018			
	Foreign Currency	Exchange rate	NTD	Foreign Currency	Exchange rate	NTD	
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD	\$	5,881	30.036	176,630	12,497	30.710	383,783
CNY		847,776	4.310	3,653,912	549,812	4.4700	2,457,660

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the foreign currency exchange rate fluctuations on cash and cash equivalents, receivables, payables, and loans, which are denominated in foreign currency. A 1% of appreciation of NTD against USD, EUR, VND, and CNY would have increased net income by \$17,820 thousand and \$40,705 thousand for the years ended December 31, 2019 and 2018, respectively; other comprehensive income would have increased \$9,011 thousand and \$9,311 thousand for the years ended December 31, 2019 and 2018, respectively. The analysis is performed on the same basis for 2018.

3) Foreign exchange gains (losses) on monetary items

Since the Group has many kinds of functional currency, the information on foreign exchange gains (losses) on monetary items is disclosed by total amount. For the years ended December 31, 2019 and 2018, foreign exchange (losses) (including realized and unrealized portions) amounted to (\$16,293) thousand and (\$1,063) thousand, respectively.

(v) Interest rate analysis

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date. For financial instruments bearing floating-rate, the sensitivity analysis assumes the floating-rate liabilities are outstanding for the whole year on the reporting date. The Group's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases by 1%, the Group's net income will decrease by \$22,162 thousand and \$16,500 thousand for the years ended December 31, 2019 and 2018, respectively, assuming all other variable factors remain constant. This is due mainly to the fact that the Group's borrowings bear floating interest rate.

(vi) Fair value information

The Group uses market observations as much as possible when measuring assets and liabilities. The level of fair value is based on the input value of the evaluation technique as follows:

- 1) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- 2) Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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- 3) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

a) Fair value of financial instruments

The fair value of financial assets and liabilities was as follows (including information on fair value hierarchy, but excluding measurements that have similarities to fair value but are not fair value and those fair value cannot be reliably measured or inputs are unobservable in active markets):

		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
December 31, 2019					
Financial Assets					
Cash and cash equivalent	\$ 9,116,253	-	-	-	-
Financial assets at fair value through profit or loss-current	783,180	783,180	-	-	783,180
Financial assets at fair value through other comprehensive income-current	321,647	321,647	-	-	321,647
Financial assets at fair value through profit or loss-non-current	9,942,994	-	-	9,942,994	9,942,994
Financial assets at fair value through other comprehensive income-non-current	2,038,393	1,595,896	-	442,497	2,038,393
Note receivables, accounts receivable and other receivables	1,958,307	-	-	-	-
Other assets	147,766	-	-	-	-
Non-financial Assets					
Investment property	36,719,706	-	-	36,719,706	36,719,706
	<u>\$ 61,028,246</u>	<u>2,700,723</u>	<u>-</u>	<u>47,105,197</u>	<u>49,805,920</u>
Financial Liabilities					
Short-term loans	\$ 3,484,148	-	-	-	-
Long-term loans-current portion	1,762,130	-	-	-	-
Long-term loans	6,721,783	-	-	-	-
Long-term accounts payable	2,286,796	-	-	-	-
Long-term bills payable	4,494,177	-	-	-	-
Other liabilities	121,339	-	-	-	-
Lease liabilities	253,243	-	-	-	-
	<u>\$ 19,123,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
December 31, 2018					
Financial Assets					
Cash and cash equivalent	\$ 13,469,938	-	-	-	-
Financial assets at fair value through profit or loss-current	1,300,897	1,165,590	-	135,307	1,300,897
Financial assets at fair value through other comprehensive income-current	251,629	251,629	-	-	251,629
Financial assets at fair value through profit or loss-non-current	4,861,274	-	-	4,861,274	4,861,274
Financial assets at fair value through other comprehensive income-non-current	1,978,339	1,539,419	-	438,920	1,978,339
Note receivables, accounts receivable and other accounts receivable	2,754,465	-	-	-	-
Other assets	131,493	-	-	-	-
Non-financial Assets					
Investment property	38,350,359	-	-	38,350,359	38,350,359
	<u>\$ 63,098,394</u>	<u>2,956,638</u>	<u>-</u>	<u>43,785,860</u>	<u>46,742,498</u>
Financial Liabilities					
Short-term loans	\$ 913,732	-	-	-	-
Long-term loans-current portion	863,801	-	-	-	-
Long-term loans	3,810,129	-	-	-	-
Long-term accounts payable	3,871,583	-	-	-	-
Long-term bills payable	349,729	-	-	-	-
Other liabilities	149,012	-	-	-	-
	<u>\$ 9,957,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

b) Valuation techniques for financial instruments which is not measured at fair value:

The carrying amount of loans and receivables, financial assets carried at cost and financial liabilities measured after amortization cost in the financial statements of the Group is close to its fair value.

c) Valuation techniques for financial instruments measured at fair value:

The Group determines the input value with reference to the analysis of the financial status and operating results, recent transaction price, related equity instruments are quoted in non-active markets, similar tools offer in the active market and comparable company evaluation multiplier of the investee company and periodically updates the input value and information and any other necessary fair value adjustments to ensure that the evaluation results are reasonable.

i) Non-derivative financial instruments

Financial instruments, if there is a public market offer, then the public market offer for the fair value, Such as listing (cabinet) company stock and open-end fund beneficiary certification.

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The fair value of the financial instruments held by the Group in the case of a non-active market is as follows:

No public offer debt investment tools: The discounted cash flow model is used to estimate fair value, it is mainly assumed that it is measured by discounting the expected future cash flows of the investee by the rate of return of the monetary time value and the investment risk.

No public offer equity instruments: Use the net asset value method, the main assumptions are based on the net per share of the investee.

ii) Derivative financial instruments

Derivative financial instruments is evaluated according to the evaluation model accepted by the market users, such as the discount method and the option pricing model.

d) There have been no transfers from each level for the years ended December 31, 2019 and 2018.

e) Statements of changes in fair value measurements of financial assets in Level 3

		Financial assets reported at fair value through profit or loss		Financial assets reported at fair value through other comprehensive income
	Investment Property	Designated at initial recognition	Derivative financial assets	Non-public quoted equity instruments
January 1, 2019	\$ 38,350,359	4,996,581	-	481,391
Acquisition from business combination	2,075	-	-	-
Purchase	-	1,235,278	-	-
Decrease	(9,423)	(135,307)	-	-
Effects on deferred income tax liabilities	(1,735,726)	-	-	-
Total gain and losses recognized in profit or loss or other comprehensive income	112,421	3,846,442	-	(38,894)
December 31, 2019	<u>\$ 36,719,706</u>	<u>9,942,994</u>	<u>-</u>	<u>442,497</u>

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		Financial assets reported at fair value through profit or loss		Financial assets reported at fair value through other comprehensive income
	Investment Property	Designated at initial recognition	Derivative financial assets	Non-public quoted equity instruments
January 1, 2018	\$ 38,226,532	156,603	-	-
Adjustments for initial application of IFRS 9	-	3,136,225	-	666,841
January 1, 2018, adjusted	38,226,532	3,292,828	-	666,841
Purchase	-	1,998,060	-	-
Disposal	-	(455,940)	-	-
Effects on deferred income tax liabilities	4,253	-	-	-
Total gain and losses recognized in profit or loss or other comprehensive income	119,574	161,633	-	(227,921)
December 31, 2018	<u>\$ 38,350,359</u>	<u>4,996,581</u>	<u>-</u>	<u>438,920</u>

f) Quantitative information on the measurement of fair value of significant unobservable input values (level 3)

Level 3 refers to the measurement of the fair value of the input parameters are not based on market availability of information, must be based on the assumption that the appropriate estimates and adjustments. If the evaluation model can not be developed on its own, the fair value of the counterparty is used as the fair value. According to IFRS13, for the fair value of the third level classified at the fair value level, the firm shall provide quantitative information about the significant unobservable input values used for the fair value measure. Businesses do not need to create quantitative information to comply with this disclosure, if quantified unobservable input value is not built when enterprises are measuring fair value (for instance, when a firm uses an unadjusted previous transaction price or a third-party pricing information), e.g. part of the the Group's investment in non-active market equity and debt instruments. The fair value of the Group's investment property belongs to the third level, which is determined in accordance with IFRSs, i.e., outsourcing to external appraisors for assessment based on market evidence (please refer to Note 6(j)). Due to the impracticability to evaluate the relationship between the unobservable input value and fair value, the quantitative information is not disclosed. The fair value of the aforesaid assets at December 31, 2019 and 2018 was \$36,719,706 thousand and \$38,350,359 thousand, respectively.

The Group holds investments in equity shares, which is classified as financial assets at fair value through profit or losses, whose fair value belongs to level 3.

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Most of fair value assets belonging to level 3 possesses no more than one significant unobservable input value. Only the equity instruments with inactive market may result in multiple unobservable input values which are all independent from each others.

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through profits or losses and financial assets at fair value through other comprehensive income	Net Asset Value Method	• Net Asset Value • Lack of market liquidity, discount rate 10%~30%	• Not applicable • Lack of market liquidity, the more the discount, the lower the fair value

g) The evaluation process for fair value belonging to level 3

The Group's fair value evaluation involves observable input value requiring unobservable parameters for significant adjustments or unobservable input value, both of which belong to level 3. The main source of such input value is external appraisors' reports. The results of the evaluation are then reviewed to assure the consistency with the source of the evaluation and the reasonability.

The evaluation of investment property complies with FSC's regulations of the evaluation methods and parameters, and is conducted by external appraisors.

h) Fair value measurements of level 3 – sensitivity analysis of reasonably possible alternative assumptions

The fair value of the financial instruments is reasonable, and the self-built evaluation model is not used for the fair value of the level 3. Therefore, it is not necessary to perform the sensitivity analysis of the possible alternative assumptions.

(aa) Financial risk management

(i) Overview

The Group are exposed to the following risks due to the use of financial instruments:

- 1) Credit Risk
- 2) Liquidity risk
- 3) Market risk

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The following discusses the Group's objectives, policies and processes for measuring and managing the risks mentioned above. For more quantitative information about the financial instruments, please refer to other related notes of the financial statements.

(ii) Risk management framework

The Board of Directors has overall responsibility for the oversight of the risk management framework in order to develop and monitor the Group's risk management policies and to report regularly on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee of the Group oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee of the Group is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(iii) Credit Risk

Credit risk means the potential loss of the Group if the clients or counterparties involved in that transaction default. The primary potential credit risk is from cash and accounts receivable.

1) Accounts receivable and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current deteriorating economic circumstances.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Risk Management Committee; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

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The Group establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables. The two components of this impairment allowance are specific loss component that relates to individually significant exposure and collective loss component which the loss was incurred but not identified. The collective component is based on historical payment experience of similar financial assets.

2) Bank deposits

The credit risk exposure in the bank deposits is measured and monitored by the Group's finance department. As the Group deals with the banks and other external parties with good credit standing and financial institutions, corporate organization and government agencies which are graded above investment level, management believes that the Group do not have compliance issues and significant credit risk.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The management believes that the Group do not have significant liquidity risk.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee.

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollar (NTD). The currencies used in these transactions are denominated in NTD, USD and CNY.

The Group's currency risk is not hedged as some of the currencies of the Group's foreign currency receivables and payables are the same, producing a natural hedge effect.

2) Interest rate risk

The Group's interest rate risk comes from long-term and short-term bank loans. The long-term bonds issued by the Company is fixed-rate, so there is no risk caused by the fluctuations of interest rates and fair value interest rate. The long-term and short-term bank loans with floating-rate are exposed to interest rate risk, but most of risk is offset by cash and cash equivalents holding in floating-rate deposits.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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3) Other market price risk

The Group does not enter into any commodity contracts other than to meet the Group's expected usage and sales requirements; such contracts are not settled on the net basis.

(ab) Capital management

The Group meets its objectives for managing capital is to safeguard the capacity to continue to operate, to continue to provide a return to shareholders, interest of other related parties and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

The Group and other entities in the similar industry use the debt-to-equity ratio to manage capital. This ratio is determined using the total net debt and divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, other equity and non-controlling interest plus net debt.

The Group's debt-to-equity ratios at the end of the reporting period as of December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Total liabilities	\$ 29,274,626	22,514,200
Less: cash and cash equivalents	<u>(9,116,253)</u>	<u>(13,469,938)</u>
Net debt	<u>\$ 20,158,373</u>	<u>9,044,262</u>
Total equity	<u>\$ 67,193,864</u>	<u>67,190,754</u>
Total liabilities and equity	<u>\$ 87,352,237</u>	<u>76,235,016</u>
Debt-to-equity ratio	<u>23.08 %</u>	<u>11.86 %</u>

On December 31, 2019, The increase of debt-to-equity ratio resulted from the operation-supplementing bank loans and cash being invested into subsidiaries.

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Notes to the Consolidated Financial Statements

(ac) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow for the years ended December 31, 2019 and 2018, were as follows:

(i) For the acquisition of right-of-use assets based on lease term, please refer to Note 6(i).

Reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2019	Cash flows	Non-cash changes		December 31, 2019
			Foreign exchange movement	Other	
Long-term loans	\$ 4,673,930	3,897,363	(87,380)	-	8,483,913
Short-term loans	913,732	2,579,857	(9,441)	-	3,484,148
Long-term bills payable	349,729	4,144,448	-	-	4,494,177
Lease liabilities	298,815	(61,653)	-	16,081	253,243
Total liabilities from financing activities	<u>\$ 6,236,206</u>	<u>10,560,015</u>	<u>(96,821)</u>	<u>16,081</u>	<u>16,715,481</u>

	January 1, 2018	Cash flows	Non-cash changes		December 31, 2018
			Foreign exchange movement	Other	
Long-term loans	\$ 3,269,165	1,263,144	141,621	-	4,673,930
Short-term loans	250,000	669,224	(5,492)	-	913,732
Long-term bills payable	299,882	49,847	-	-	349,729
Total liabilities from financing activities	<u>\$ 3,819,047</u>	<u>1,982,215</u>	<u>136,129</u>	<u>-</u>	<u>5,937,391</u>

(7) Related-party transactions:

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Group</u>
Kaohsiung Monomer Company	Investee as accounted for using equity method
Zhong Gong Baoquan Ltd.	Investee as accounted for using equity method
BES Engineering Corporation	The Company is a director of the entity
Core Pacific City Co., Ltd.	Shares a director with the Company
Chung Kung Management and Maintenance of Apartments Co., Ltd.	Investee as accounted for using equity method of Zhong Gong Baoquan Ltd.
Coreasia Human Resources management Co., Ltd.	Subsidiary of BES Engineering
Capital Machinery Co., Ltd.	The entity is a director of the Company
Sheen Chuen-Chi Cultural & Educational Foundation	The entity is a director of the Company

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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<u>Name of related party</u>	<u>Relationship with the Group</u>
Changshu Jing Hui Properties Co., Ltd.	The president of the entity is the vice president of the Company
All Board of Directors, general manager and deputy general manager	The main management of the Company

(b) The ultimate parent company

The Company is the ultimate parent company.

(c) Significant Transactions with related parties

(i) Sale of Goods and Services to Related Parties

The amounts of significant sales by the Company to related parties were as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Associates	\$ <u>550,760</u>	<u>644,031</u>

The terms for related party sale transactions were the same as ordinary sales.

(ii) Receivables

The receivables from related parties were as follows:

<u>Accounts</u>	<u>Types of related parties</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Accounts receivable	Associates	\$ 57,764	60,233
Other receivables	Associates	10,969	9,793
Other receivables	Other related parties	<u>9</u>	<u>4</u>
		\$ <u>68,742</u>	<u>70,030</u>

(iii) Payables

The payables to related parties were as follows:

<u>Accounts</u>	<u>Types of related parties</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Other payables	Associates	\$ 4,602	4,976
Other payables	Other related parties	<u>18,134</u>	<u>4,548</u>
		\$ <u>22,736</u>	<u>9,524</u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(iv) Other

	For the years ended December 31,	
	2019	2018
Associates		
Rental income	\$ 5,373	5,235
Other revenues	16,835	17,809
Security service fees	(23,057)	(23,978)
Other related parties		
Rental income	3	4
Other revenues	15	1,043
Other expenses	(21,243)	(882)
Rental expenses	-	(4,814)

Please refer to Note 6(q) for lease of land and buildings to related parties.

- (v) The Group had a two-year contract with BES Engineering, for the lease of office building, with the total value of \$9,629 thousand. The rental expense for the year ended December 31, 2018 was \$4,814 thousand. This rental transaction was applicable to IFRS16 and recognized right-of-use assets and lease liability both amounting to \$7,130 thousand. The depreciation expense and interest expense for the years ended December 31, 2019 and 2018 were \$4,754 thousand and \$82 thousand, respectively. The amount of lease liability as of December 31, 2019 was \$2,398 thousand.
- (vi) The Group had contracts with BES Engineering, for mechanical engineering services projects and paid commission on the basis of actual construction. As of December 31, 2019 and 2018, the construction project in-progress amounted to \$1,532,800 thousand and \$1,532,800 thousand, respectively. As of December 31, 2019 and 2018, the unpaid fees amounted to \$860,680 thousand and \$1,376,787 thousand, respectively. The refundable deposit at December 31, 2019 and 2018 amounted to \$415,794 thousand and \$453,492 thousand, respectively.
- (vii) The Group had contracts with Capital Machinery, for mechanical engineering services projects and paid commission on the basis of actual construction. As of December 31, 2019 and 2018, the construction project in-progress amounted to \$19,920 thousand and \$17,700 thousand, respectively. As of December 31, 2019 and 2018, the unpaid fee amounted to \$15,028 thousand and \$14,497 thousand, respectively. The security deposit was \$1,830 thousand and \$1,300 thousand as of December 31, 2019 and 2018.
- (viii) The Group acquired 123,528 thousand shares of preferred stocks of Core Pacific City Co., Ltd. amounting to \$1,235,278 thousand on March 11, 2019. Please refer to Note 6(b).
- (ix) The Group acquired 20,000 thousand shares of common stock of BES Twin Towers Co., Ltd. amounting to \$215,600 thousand from BES Engineering Co., Ltd. on March 12, 2019.
- (x) The Group acquired 100 thousand shares of common stock of BES Twin Towers Co., Ltd. amounting to \$1,078 thousand from its management on March 12, 2019.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(xi) To acquire its right of development and use of land, the Company invested the amounts of USD48,000 thousand (\$1,400,000 thousand) and USD114,000 thousand (\$3,400,000 thousand) in Frontier Fortune Investment Pte. Ltd. (Vietnam) and Core Pacific Twin Star (Vietnam) Investment Co., Ltd., respectively, on October 25, 2018, wherein, 20% of the investment amounts will be offered to Changshu Jing Hui Properties Co., Ltd. for purchasing option.

(d) Key management personnel compensation

	For the years ended December 31,	
	2019	2018
Short-term employee benefit	\$ 201,995	257,498
Post-employment benefits	14,284	7,533
	\$ 216,279	265,031

(8) Pledged assets:

The Group's pledged assets are as follows:

Asset	Purpose of pledge	December 31, 2019	December 31, 2018
Time deposits	Guarantee for priority right-of-use of harbor	\$ 10,037	10,038
Property, plant and equipment	Collateral for long-term and short-term financial credit, syndicated loan	5,511,001	4,453,343
Investment property	Syndicated loan, collateral for long-term financial credit and long-term bills payable	5,122,417	5,995,969
Investments accounted for using equity method	Long-term bills payable	888,805	1,378,279
Financial assets reported at fair value through other comprehensive income	Long-term bills payable	961,050	915,400
Financial assets reported at fair value through profit or loss	Long-term bills payable	624,180	477,405
Refundable deposit	Deposit for lawsuit	91,557	91,557
Right-of-use of Sea Areas	Collateral for long-term financial credit	598,865	625,190
		\$ 13,807,912	13,947,181

As of December 31, 2019 and 2018, 4,000 thousand shares of a subsidiary of the Group were pledged as collateral for long-term bills payable.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(9) Significant commitments and contingencies:

- (a) As of December 31, 2019 and 2018, the Group had the following unused letters of credit:

	December 31, 2019	December 31, 2018
USD	\$ 11,696	43,631
EUR	235	-
NTD	1,015,000	1,095,000
CNY	20,799	32,264
JPY	37,300	-

- (b) As of December 31, 2019 and 2018, the Group had issued guarantee notes for bank loans, sales and purchases, and development plan aggregating to \$13,508,000 thousand, USD30,000 thousand and \$13,748,669 thousand, USD20,000 thousand, respectively.
- (c) As of December 31, 2019 and 2018, the Group had contracts for various construction projects in-progress amounting to \$10,891,348 thousand and \$8,511,323 thousand, respectively. As of December 31, 2019 and 2018, the remaining future obligations under these contracts amounted to \$3,404,508 thousand and \$4,219,235 thousand, respectively.
- (d) As of December 31, 2019 and 2018, the agreement on the acquisition of material property amounted to \$37,200,010 thousand and \$0 thousand, and the unpaid portion amounted to \$29,760,000 thousand and \$0 thousand, respectively. Please refer to Note 6(e) for more information.
- (e) As of December 31, 2019 and 2018, the Company signed an agreement to purchase raw materials such as benzene, hydrogen and methylbenzene from Chinese Petroleum Corporation (CPC). Under this contract, the Company may purchase specified monthly volume of these raw materials at current month prices announced by the Chinese Petroleum Corporation with prepayment or domestic letter of credit.
- (f) Important matters
- (i) Case of Kaohsiung gas explosion forced disconnected pipeline

On July 31, 2014, there was an underground pipeline explosion in Kaohsiung city. Due to the post - disaster reconstruction project, Kaohsiung City Government issued a penalty letter No. 10335137100 on August 18, 2014, to order the Company to stop operations and prohibited the use of all petrochemical pipelines in the disaster area. The Company was not satisfied with the preceding penalty and filed a legal petition to the Administrative court for revoking the original claims for petition remedy in September 2014. The case was rejected by the Kaohsiung High Administrative Court, which the Company was not satisfied with. Hence, the Company submitted an appeal in February 2017.

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- (ii) Abolishment of the permission for Kaohsiung road and underground pipeline excavation and pipeline

Due to the August 1, 2014, Kaohsiung gas explosion, the Kaohsiung City Government Bureau of Water Resources issued the letter to Refining Division of CPC: abolishing the permission letter No. 950129 issued on December 15, 1990, and permission letter No. 050076 issued on April 13, 1991, and prohibited the roads for underground pipeline excavation and pipeline use. Since the pipeline prohibited for use belonged to the Company and was built by CPC, the Company, as the interested party, filed a petition to the Kaohsiung City Government to revoke the original punishment, which was rejected by Kaohsiung City Government Appeal Committee on February 16, 2015. The Company filed the administrative legal action to Kaohsiung High Administrative Court in April 2015. Through the rejection sentenced by Kaohsiung High Administrative court in March 2017, the Company was unsatisfied with and proposed for the appeal in April of the same year. The supreme administrative court rejected the appeal in May 2018 and the case was closed.

- (iii) Damage of Kaohsiung gas explosion

The above mentioned cases of Kaohsiung gas explosion and abolishment of the permission for Kaohsiung road and underground pipeline excavation were concerned with being legally forced to suspend by administrative executives, which were eligible for damage indemnity. For the interests of the Company, the Company filed the administrative legal action to Kaohsiung High Administrative Court in February 2018.

- (iv) Equity trading dispute

The resolution, implementation of a signed tripartite supplemental agreement between the Company and PPG&GGC (which had been merged as Axiall company now), from the Company's board meeting on April 21, 2016: trading the equity of Taiwan Chi chlorine Chemical Co., Ltd, total 6,400,000 shares at the sales price, USD100,000 thousand, which was equivalent to \$3,225,000 thousand. After the expectation of the disposal interests, \$2,838,761 thousand, the Company instantly instructed Axiall company to carry out the equity trading of Taiwan Chi chlorine Chemical Co., Ltd. The Company issued the letter many times to ask Axiall to implement the agreement, however, Axiall repeatedly delayed actions. Hence, the Company filed the arbitration to American Arbitration Association in August 2016. Axiall submitted the pleadings in September 2016 and asked PPG to participate in the lawsuit. Outside lawyers of PPG, in the October of same year, represented that PPG was willing to negotiate the contract of equity trading. PPG signed the contract with the Company at the end of February 2017 and handled the equity transactions subsequently. The Company received USD100,000 thousand in April of the same year and transferred the stock to finish the transaction. However, Axiall continued to be arbitrated against related claims such as the interest. The Company prevailed in April 2019, and was entitled to compensation of default interests and the attorney's fee about USD3,200 thousand, which was obtained in April in the same year.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
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(g) Contingent liabilities

- (i) The Company signed total three land lease contracts with the Kaohsiung branch of Taiwan International Ports Corporation, Ltd. In December 2013 and February 2014. The Kaohsiung Port Intercontinental Container Center 2nd Phase Project Petrochemical Oil Storage and Transportation Center S12-S15 Pier Post line Land was leased and the Company invested to build the construction of petrochemical oil storage and transportation facilities for the purpose of import and export and transport of petrochemical oil handling, storage and transportation. The Kaohsiung branch of Taiwan International Ports Corporation, Ltd. delivered the land to the Company prior to the end of December 2017. The term of the lease was 25 years from the date of delivery and the Company had the right to renew the lease at the end of the period. Per the contract, the Company had to pay rent of \$1,650 thousand, \$2,565 thousand and \$1,493 thousand respectively since the land was delivered. 3 years and 6 months from the land delivery date, the Company paid management fees of \$10,654 thousand, \$24,605 thousand and \$12,329 thousand respectively. The Company also placed Certificate of Deposits of \$5,000 thousand and \$13,000 thousand as performance bonds in December 2013 and February 2014 respectively. The Company, in August 2015, shortened the operating scale based on the readjustment of investment plan, which resulted in one of the performance bonds of \$8,000 thousand, not being returned. Taiwan International Ports Corporation, Ltd. completed the transaction procedure prior to November 2017. The Company started to implement land drilling and geological improvement project and started paying the land rent of those projects, which was \$1,675 thousand and \$1,497 thousand respectively each year.

(ii) Dispute from the senior manager

1) Labor Dispute

The previous senior managers, who left the Company without transferring the duties and authorization, did not perform the duties since July 1st 2013 and the Company issued the letter to request to fulfill the agreement without any response from manager. Hence, the board of the Company dismissed the manager in October 2013. The manager asked the Company to pay pensions pursuant to Labor Standards Act as a labor worker, which was not reconciled through mediation.

The Civil litigation against Mr. Liu was filed in Taipei District Court and Kaohsiung District Court respectively in January 2014. Taipei District Court, in August 2015, considered that the contract of senior manager was ended for both sides, and Expired Employee Retirement Policies of the Company was applicable, the Company shall pay \$4,572 thousand to Mr. Liu. The Company was not satisfied with the original verdict and appealed for the 2nd sentence court. The 2nd sentence court sentenced to reject request from the Company in March 2017. The Company was not satisfied and proposed the appeal in April of the same year, which was under remedy trial in the Supreme Court. In June 2019, the appeal was dismissed and the judgment was binding and final.

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For the part of Mr. Zhang, Kaohsiung District Court considered that the assigned relationship did not end, which means that the Expired Employee Retirement Policies of the Company does not apply. Mr. Zhang request for pension is without any basis, but according to the contract of both side, the Company shall pay salaries of \$35 thousand, to Mr. Zhang, which was not satisfied by Mr. Zhang and this case was appealed to the 2nd sentence court. In July 2016, the 2nd sentence court rejected the request from Mr. Zhang but he re-appealed to the 3rd sentence in August of the same year. Upon finding the appeal meritorious, the Supreme Court reversed and remanded the judgement. The preparatory proceeding of the first repeated appeal was conducted in Taiwan Court Kaohsiung Branch Court in April 2019.

2) Disclosure Secret Case

Managers who left the office without authorization were suspected to be involve in business encroachment, theft of business secrets. To protect Company interests, the Company filed criminal appeal. The case was concluded by the Taiwan Miaoli Local Court in January 2017 and the relevant defendants were prosecuted. The civil litigation derived from the case is waiting for hearing by the Taipei District Court and Miaoli District Court. The supreme administrative court rejected the appeal in June 2018. Please refer to Note 8 for details of deposit for lawsuit.

(iii) Accusation of business failures

A gas explosion happened in Heng Yi chemical plant next to the Toufen plant and caused workers to be burned on January 28, 2013, which evolved into accusations of business failures. Since the incident happened in the public discharged area of the industrial site, it was suspected to contain excessive value of the company's emissions with the sampling identification and the Company's manager was prosecuted as defendant per the victims' requests. This case was not prosecuted after the judgment decision from Miaoli District Attorney, hence, the victims filed the reconsideration and Taichung High Prosecutor's Office remanded the case back to the Miaoli District Attorney for review. The victims of Heng Yi chemical plant prosecuted the Company and managers in February 2015 and asked for the joint damaged compensation \$6,920 thousand, which awaited hearing by Miaoli local court. In September of the same year, both sides agreed to withdraw the litigations. Trial procedure was recovered in February 2016 and criminal litigation was determined not to be prosecuted in March 2016. The verdict of civil litigation was won in March 2016, with the formal decision awaiting final judgment. The Company proposed the appeal for remedy focus on the unsatisfied parts. This case is currently under hearing in High Court Taichung Branch.

(iv) Contract Fraud of Shanghai industry

On August 6, 2014, the reinvestment company, Weihua and Weiqiang, filed the civil appeal to Yangpu District Court to ask Shanghai Tongye Coal and Chemical Industry Group Co., Ltd. to pay all overdrafts of the contract. However, Shanghai Tongye Coal and Chemical Industry Group Co., Ltd. did not perform the first phase of repayment according to Court's mediation report, Weihua and Weiqiang, on September 2, 2014, applied to Yangpu District Court for the enforcement and sealed all coal tar of Shanghai Tongye Coal and Chemical Industry Group Co., Ltd., the total coal tar sealed was 5,216 tons and 4,777 tons were sold. Subsequently, Weihua and Weiqiang Company and Shanghai Tongye Coal and Chemical Industry Group Co., Ltd. would continue negotiations on unrealized creditors and requested Shanghai Tongye Coal

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and Chemical Industry Group Co., Ltd. to propose the more specific repayment plan. Weihua and Weiqiang estimated allowance of the accounts receivable to be, CNY19,274 thousand and CNY8,276 thousand respectively. Weihua and Weiqiang Company reported to the police the relevant persons of Shanghai Tongye Coal and Chemical Industry Group Co., Ltd. that were suspected to be involve with the contract fraud and other criminal matters. The police rejected the report due to insufficient evidence, therefore Weihua hired a local lawyer in May 2018, to assist with Shanghai police and Shanghai economics investigation group. The case is now under investigation.

(v) civil compensation for Residents living in An shun

1) The 1st case

In 2008 and 2009, Mr. Wu and others filed civil and national compensation lawsuit against the Ministry of Economic Affairs, Tainan City Government, Tainan City Environmental Protection Bureau and the Company (Hereinafter referred to as 1st case of Tainan Anshun plant civil compensation) and they claimed that during 1942 and 1983, the previous Taiwan Alkali Co. Ltd. Anshun plant, produced mercury and dioxins in its production operations and polluted the environment, which resulted in the population consuming contaminated fish and shellfish over time, which resulted in long term health issues. The Ministry of Economic Affairs had control and management responsibility of the previous Taiwan Alkali Co. Ltd, and whether due to illegal actions, or a lack of attention in performing their duties, the Ministry of Economic Affairs was the ultimate owner of CPDC, should take responsibility. Hence, the prosecutors claim that the Ministry of Economic Affairs shall take the responsibility for the compensation. Mr. Wu and others also claimed that Tainan City Government and Tainan City Environmental Protection Agency were the competent authorities and executive authorities of the waste disposal law but the authorities did not supervise and require the Anshun plant to implement pollution prevention and control acts, thus should be jointly responsible for any compensation. Mr. Wu and others claim that the Company did not perform any removal and remediation of pollutants after being ordered to merge with the previous Taiwan Alkali Anshun plant, so they claimed the Company shall also take joint responsibility for the compensation. Mr. Wu and others asked the Ministry of Economic Affairs, Tainan City Government, Tainan City Environmental Protection Bureau and the Company to jointly bear the cost of medical expenses and mental compensation for \$370,800 thousand and the interest was calculated by an annual interest rate 5% from the date when the litigation was initiated by the defendants until the final payment of compensation. Due to unpaid referee fees, due from the plaintiff, the Tainan District Court rejected the litigation claims from these 17 persons in January 2010. Mr. Chen appealed to the Tainan District Court asking the Company for medication, health examination fee and reparations, to the amount of \$2,300 thousand, which was incorporated into this case, the total compensation amount was \$351,750 thousand. This case was tried by the Tainan District Court in December 2015 and judged that the Company and the Ministry of Economic Affairs to be jointly responsible for \$160,000 thousand payable to the plaintiff. The Company was not satisfied with the result and filed an appeal. In August of 2017, the High court sentenced the Company to compensate the plaintiff for \$190,000 thousand, which the Company was not satisfied with and had proposed the appeal for remedy in September of the same year. The supreme court held oral argument on September 28, 2018, and judgment was sentenced on November 11, 2018, the supreme court sentenced to order the Company to compensate the plaintiff for

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\$190,000 thousand. The Company made a payment of compensation and related interests to 143 plaintiffs before the end of June 2019. The part related to medical remedy of the case was abandoned for secondary trial.

2) The 2nd case

Mr. Chen and others filed civil and national compensation lawsuit against the Company and the Ministry of Economic Affairs on March 14th 2017 (Hereinafter referred to as 1st case of the Tainan Anshun plant civil compensation), they claimed the Company and the Ministry of Economic Affairs had to jointly compensate the plaintiff \$80,915 thousand. The verdict of the 3rd national compensation in 2008 of the Tainan Anshun plant civil compensation 1st case was cited as the reason to be litigated. However, the Company claimed that there was a misunderstanding of the theoretical and practical nature of epidemiology causality versus the verdict. There were disputable factors on both factual and legal matters. During the 1st and 2nd instance of the Anshun plant Civil Compensation litigation under hearing, the Company once again put forward the relevant academic articles to prove that there was no causality between pollution from Tainan Anshun plant and diabetes. Moreover, the plaintiffs in this case, despite the reasonableness of their claims, did not put forth any litigation before the expiry of the statutes of limitations. Thus, in this 2nd case of the Tainan Anshun plant civil compensation, the Company continued to seek for the jurisdiction remedies to protect the Company and shareholder interests.

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:

- (a) In order to invest in the overseas subsidiary for the purpose of plant construction, a resolution was made during the Board of Director's meeting held on September 23, 2019 for the issuance of common stock in term of Global Depositary Receipts (GDR), with a maximum limit of \$500,000 thousand shares, amounting to USD160,317 thousand, which was approved by Rule No. 1080335763 Financial Supervisory Commission on November 20, 2019. The share price was determined and completed on January 6, 2020 and issued on January 10, 2020. The total units of issued GDR was 18,000 thousand, which represented the right of common stock for 450,000 thousand shares; for every 25 shares of common stock per unit of GDR, the unit price of GDR was USD7.18, which was equivalent to \$8.64 per share, resulting to a total issuance price amounting to USD129,240 thousand..
- (b) On February 26, 2020, the Board of Directors resolved during their meeting to purchase the land, lants and equipment of Sunko Ink Co., Ltd amounting to \$465,000 thousand for the purpose of expanding the manufacturing and business operations of the Company.

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(12) Other:

- (a) The nature of operating costs and expenses were as follows:

By item	By function	For the years ended December 31							
		2019				2018			
		Operating cost	Operating expense	Non-Operating expense	Total	Operating cost	Operating Expense	Non-Operating expense	Total
Employee benefits									
Salary		914,004	592,961	-	1,506,965	1,147,548	693,924	246	1,841,718
Labor and health insurance		93,255	59,192	-	152,447	93,076	46,408	-	139,484
Pension		42,922	28,339	-	71,261	45,132	22,761	-	67,893
Remuneration of directors		-	72,303	-	72,303	-	106,013	-	106,013
Others		29,917	17,467	-	47,384	29,380	12,591	-	41,971
Depreciation		1,268,315	160,879	6,058	1,435,252	1,163,078	195,640	5,969	1,364,687
Amortization		640	9,362	-	10,002	5,199	14,337	-	19,536

- (b) On March 22, 2019, Kaohsiung Urban Planning Commission (KUPC) announced that Dashe Industrial Park (DIP), where the Company's plant is located, will be categorized from Special Zone to Zone B. In light of this matter, all the companies involved in this case are making their best effort to negotiate and compromise with KUPC, requesting KUPC to change DIP's status to Zone A instead of Zone B.

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Notes to the Consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
1	Core Pacific Twin Star (Myanmar) Investment Company Ltd.	Core Pacific Pioneer (Myanmar) Company Ltd.	Other Receivable	Yes	23,128	23,128	6,908	2%	2	-	Operating	-		-	63,429	63,429

Note 1: Numbering nature of borrowing as follows:

Transaction for business between two parties — 1

Short-term financing — 2

Note 2: The financing limit was 40% of net value of Core Pacific Twin Star (Myanmar).

Note 3: The amounts of the transaction and the ending balance had been offset in the consolidated interim financial statements.

(ii) Guarantees and endorsements for other parties:None

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units	Carrying value	Percentage of ownership (%)	Fair value	
CPDC	Yuanta Financial Holdings	None	Financial assets designated at fair value through profit or loss — current	30,938,819	624,964	0.27	624,964	
	BES Engineering Co.	The Company is a director of the investee company	Non-current financial assets at fair value through other comprehensive income	149,243,449	1,161,114	9.75	1,161,114	
	China Development Financial Holding Corp.	None	"	44,684,712	434,782	0.30	434,782	
	Handy Chemical Corporation Ltd.	The Company is a supervisor of the investee company	"	407,000	1,461	4.52	1,461	
	Overseas Investment & Development Corp.	None	"	2,600,000	26,000	2.89	26,000	
	Core Pacific City Co., Ltd.	Shares a director with the Company	Financial assets designated at fair value through profit or loss — non-current	422,250,872	7,247,062	27.19	7,247,062	
	Praxair Chemax Semiconductor Materials	The Company is a director of the investee Company	Non-current financial assets at fair value through other comprehensive income	2,701,651	114,293	14.00	114,293	
	ZOWIE Technology Corporation	The Company is a director of the investee company	Non-current financial assets at fair value through other comprehensive income	8,815	358	0.05	358	
BES Twin Towers Co., Ltd	Aetas Technology Inc.	"	"	287,961	-	0.58	-	
	Taiwan Business Bank	"	Current financial assets at fair value through other comprehensive income	25,527,558	321,647	0.36	321,647	

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units	Carrying value	Percentage of ownership (%)	Fair value	
Tsou Seen Chemical Industries Corporation	Core Pacific City Co., Ltd.	Shares a director with the Company	Financial assets designated at fair value through profit or loss—current	160,111,000	2,695,932	10.31	2,695,932	
	Praxair Chemax Semiconductor Materials	The Company is a director of the investee company	Financial assets at fair value through other comprehensive income—non-current	6,754,127	285,733	35.00	285,733	
	Taiwan Tea Corporation	The Company is a director of the investee company	Financial assets designated at fair value through profit or loss—current	9,618,000	158,216	1.22	158,216	
	Good Company	"	Financial assets at fair value through other comprehensive income—non-current	750,000	-	2.08	-	
	TaiRx, Inc.	"	"	722,500	14,652	1.18	14,652	
					<u>13,086,214</u>		<u>13,086,214</u>	

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of \$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance	
					Shares/units	Amount	Shares/units	Amount	Shares/units	Price	Cost	Gain (loss) on disposal	Shares/units	Amount
The Company	ETF	Financial assets at fair value through profit or loss—current	Yuanta/P-shares SSE50 ETF	None	10,313,000	289,332	-	-	10,313,000	326,539	289,332	37,207	-	-
	ETF	"	Cathay China	"	16,378,000	288,988	-	-	16,378,000	334,870	288,988	45,882	-	-
	Money fund	"	First Security and Insurance Co., Ltd	"	-	-	29,353,684.10	450,000	29,353,684.10	450,353	450,000	353	-	-
	Money fund	"	JuShen Funds Co., Ltd	"	-	-	68,030,231.53	1,010,000	68,030,231.53	1,010,582	1,010,000	582	-	-
	Ordinary and Preferred shares	Financial assets at fair value through profit or loss—non-current	Core Pacific City Co., Ltd.	Shares a director with the Company	298,723,070	3,248,545	123,527,802	1,235,278	-	-	-	-	422,250,872	7,247,062
	Praxair Chemax Semiconductor Materials Co., Ltd.	Financial assets at fair value through other comprehensive income—non-current	BES Twin Towers Co., Ltd.	Subsidiary	9,455,778	438,920	-	-	6,754,127	351,290	351,290	-	2,701,651	114,293
BES Twin Towers Co., Ltd.	Praxair Chemax Semiconductor Materials Co., Ltd.	Financial assets at fair value through other comprehensive income—non-current	the Company	Subsidiary	-	-	6,754,127	351,290	-	-	-	-	6,754,127	285,733

- (v) Acquisition of individual real estate with amount exceeding the lower of \$300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Name of property	Transaction date	Transaction amount	Status of payment	Counter-party	Relationship with the Company	If the counter-party is a related party, disclose the previous transfer information				References for determining price	Purpose of acquisition and current condition	Others
							Owner	Relationship with the Company	Date of transfer	Amount			
Ding-Yue Development Co., Ltd	land	September 25, 2019	37,200,010	-	Core Pacific City Co., Ltd.	Shares a director with the Company	Note 1	-	-	-	Appraisal reports from Real Estate Appraisers Firm	Business operating use	Note 2

Note 1: The object of the transaction owned by different related parties within 5 years, wherein a disclosure on the date of acquisition, price, and relationship with the parent company in the current period is required: N/A.

Note 2: The consideration of the transaction and the property (including the land and the building constructed on it) are under mutual trust agreement.

- (vi) Disposal of individual real estate with amount exceeding the lower of \$300 million or 20% of the capital stock: None

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of \$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	Tsou Seen Chemical Industries Corporation	Subsidiary	Sales	(1,053,316)	3.56 %	3 Month	-	OA 90 days	32,347	1.90%	Note
	Weihua (Rudong) Trade Co., Ltd	Subsidiary	Sales	(247,339)	0.83 %	3 Month	-	OA 90 days	79,520	4.67%	"
	Kaohsiung Monomer Company Ltd	Affiliated company accounted for using equity method	Sales	(550,760)	1.86 %	1 Month	-	-	57,764	3.39%	
CPDC Green Technology Corp.(CPDC GT) (Original name: CPDC Engineering Co., Ltd.)	The Company	Subsidiary	Sales	(249,499)	0.89 %	Base on contract	-	Base on contract	51,269	3.89%	Note
Weihua (Rudong) Trade Co., Ltd	Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	same parent company	Sales	(388,507)	1.31 %	1 Month	-	OA 30 days	99,757	5.85%	"
Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	Jiangsu Weiming Petrochemical Corporation(Weiming)	same parent company	Sales	(194,560)	0.66 %	1 Month	-	OA 30 days	-	-%	"

Note: The amounts of the transaction and the ending balance had been offset in the consolidated financial statements.

- (viii) Receivables from related parties with amounts exceeding the lower of \$100 million or 20% of the capital stock:None
- (ix) Trading in derivative instruments:None
- (x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	Weihua (Rudong) Trade Co., Ltd (Weihua)	1	Sales revenue	247,339	OA 90 days	0.83%
0	The Company	Tsou Seen Chemical Industries Corporation(TSCIC)	1	Sales revenue	1,053,316	OA 90 days	3.56%
0	The Company	CPDC Green Technology Corp.(CPDC GT) (Original name:CPDC Engineering Co., Ltd.)	1	Repair expense	249,499	Base on contract	0.89%
1	Weihua (Rudong) Trade Co., Ltd (Weihua)	The Company	2	Cost of goods sold	247,339	OA 90 days	0.83%
2	Tsou Seen Chemical Industries Corporation(TSCIC)	The Company	2	Cost of goods sold	1,053,316	OA 90 days	3.56%
3	CPDC Green Technology Corp.(CPDC GT)(Original name:CPDC Engineering Co., Ltd.)	The Company	2	Sales revenue	249,499	Base on contract	0.89%
4	Weihua (Rudong) Trade Co., Ltd (Weihua)	Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	5	Sales revenue	388,507	OA 30 days	1.31%

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

No.	Name of company	Name of counter-party	Nature of relationship	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
5	Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	Weihua (Rudong) Trade Co., Ltd (Weihua)	5	Cost of goods sold	388,507	OA 30 days	1.31%
6	Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	Jiangsu Weiming Petrochemical Corporation(Weiming)	4	Sales revenue	194,560	OA 30 days	0.66%
7	Jiangsu Weiming Petrochemical Corporation(Weiming)	Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	4	Cost of goods sold	194,560	OA 30 days	0.66%

Note 1: Company numbering as follows:

Parent company — 0

Subsidiary starts from 1

Note 2: The numbering of the relationship between transaction parties as follows:

Parent company to subsidiary — 1

Subsidiary to parent company — 2

Subsidiary to subsidiary — 3

Subsidiary to sub-subsidiary — 4

Sub-subsidiary to sub-subsidiary — 5

Note 3: The amounts of the transaction and the ending balance had been offset in the consolidated interim financial statement

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value			
The Company	Kaohsiung Monomer Company Ltd	1, Hsing Kung Road, Taipei O Box 6-25 Nantze, Kaohsiung (815), Taiwan	Methyl Methacrylate Monomer	-	-	20,000,000	40.00 %	888,805	1,227,244	490,897	Note 1
"	Zhong gong baoquan Ltd.	6F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Security consultants	14,400	14,400	1,440,000	24.00 %	19,835	9,596	2,303	Note 1
"	Ding-Yue Development Co., Ltd. (original name: Tao Zhu Construction & Development Co., Ltd.)	8F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Commissioned to create a vendor to build the housing, commercial buildings and plant rental business, management of land development and playgrounds and other related business investment	1,100,000	100,000	754,000,000	100.00 %	7,518,184	1,771	1,771	Note 2
"	CPDC Investment (BVI) Co Ltd.	Citco Building, Wickhams Cay, P.O. Box 662	Holding company	904,946	904,946	26,580,000	100.00 %	901,631	(3,485)	(3,485)	Note 2&4
"	Tsou Seen Chemical Industries Corporation	No.1, Jingjin Rd., Fangliao Township, Pingtung County 940, Taiwan	Dicalcium phosphate	760,000	760,000	96,000,000	100.00 %	1,511,615	90,669	90,669	Note 2&5
"	CPDC Green Technology Corp.(Original name: CPDC Engineering Co., Ltd.)	14F.,-16, No.61, Wufu 3rd Rd., Qianjin Dist., Kaohsiung City 801, Taiwan	Mechanical engineering	100,000	100,000	15,000,000	100.00 %	102,891	(37,577)	(37,577)	Note 2&5
"	Rich Equities Ltd.	Level3, Alexander House, 35 Cybercity, Ebene, Mauritius	Holding company	5,996	5,996	180,000	100.00 %	5,183	46	46	Note 2&4
"	Unichem Development Limited	Room 511, 5/F, Tower 1 Silvercord 30 Canton Road TSIM SHA TSUI KOWLOON	Holding company	7,865,233	5,894,124	255,367,516	100.00 %	6,725,721	(231,486)	(231,486)	Note 2&4&5
"	BES Twin Tower Development Co., Ltd.	16F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Real estate investment and development	3,353,383	2,000,000	368,100,910	100.00 %	4,991,033	1,247,592	1,247,523	Note 2&5

(Continued)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares	Percentage of ownership	Carrying value			
The Company	Thanh Phong Construction Investment Co., Ltd.	B2-19, Golden King Tower Building, No. 15 Nguyen Luong Bang, Tan Phu Ward, District 7, Ho Chi Minh City	Engaged in construction, real estate, building construction consulting, lease equipment and wholesale of building materials	609,347	609,347	458,637,500,000	97.87 %	598,440	4,044	3,958	Note 2&4&5
"	Jean Pacific Development Co., Ltd.	7F.-2, No.300, Yangguang St., Neihu Dist., Taipei City 11491, Taiwan (R.O.C.)	Renting and selling real estate	480,000	-	48,000,000	40.00 %	479,955	(113)	(45)	Note 1
CPDC Investment (BVI) Co Ltd.	Core Pacific Overseas Holdings Ltd	Akra Bldg., 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands	Holding company	808,564	808,564	26,580,000	45.19 %	895,933	(7,418)	(3,352)	Note 2&4
Ding-Yue Development Co., Ltd. (original name: Tao Zhu Construction & Development Co., Ltd.)	Da-ying Construction Ltd.	10F.-5, No.51, Fuxing Rd., Taoyuan Dist., Taoyuan City 330, Taiwan	Engineering, construction contracting business	22,500	22,500	-	100.00 %	29,081	4,452	4,452	Note 2&3
Tsou Seen Chemical Industries Corporation	Taivex Therapeutics Inc.	8F., No.12, Dongxing Rd., Taipei City 105, Taiwan	Engaged in biotechnology, pharmaceutical research and development and marketing	462,246	462,246	46,224,551	91.10 %	325,765	(64,876)	(59,102)	Note 2
BES Twin Towers Development Co., Ltd.	Frontier Fortune Investment Pte. Ltd.	112 ROBINSON ROAD#05-01 ROBINSON 112SINGAPORE (068902)	Holding company	1,326,796	180,817	43,060,000	100.00 %	1,307,655	25,292	25,292	Note 2&4
Frontier Fortune Investment Pte. Ltd.	Core Pacific Twin Star (Myanmar) Investment Company Ltd	NO.153/Ka,Kyun ShweMmyaing Lane (2) ,23 ward,Thingangyun Townshin Yangon	Holding company and consultancy	169,921	169,921	5,500,001	100.00 %	163,195	3,378	3,378	"
Frontier Fortune Investment Pte. Ltd.	Gemini Star (India) Private Limited	Level7, The Capital, Plot No.C-70, G Block, Bandra Kurla Complex, Bandra MUMBAI Mumbai City MH 400051 IN	Real estate and petrochemical products research and consultancy	9,274	-	2,100,000	99.99 %	7,485	(1,429)	(1,429)	"
Frontier Fortune Investment Pte. Ltd.	Core Pacific Twin Star (Vietnam) Investment Co., Ltd.	B2-19, Golden King Tower Building, No. 15 Nguyen Luong Bang, Tan Phu Ward, District 7, Ho Chi Minh City	Engineering, real estate and consultancy of construction	1,131,376	-	850,000,000,000	97.70 %	1,128,322	27,723	27,085	"
Core Pacific Twin Star (Myanmar) Investment Company Ltd	Core Pacific Pioneer (Myanmar) Company Ltd	NO.153/Ka,Kyun ShweMmyaing Lane (2) ,23 ward,Thingangyun Townshin Yangon	Building construction, real estate management, development and sale	24,804	12,355	800,000	80.00 %	24,817	840	672	"
								<u>27,625,546</u>	<u>2,296,263</u>	<u>1,561,570</u>	

Note1: The Company adopts the equity method to evaluate the investment company.

Note2: The Company has direct or indirect control of the invested company. If the invested company has direct or indirect control, it shall expose the relevant information of the following 2 to 10 transactions of the investee company.

Note3: Limited company expressed by the amount of capital, no shares issued.

Note4: The original investment amount is the foreign currency, at the prevailing exchange rate.

Note5: This transaction has been written off when the consolidated statement has been prepared.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
Weihua (Rudong) Trade Co., Ltd (Weihua)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	763,460	(2) · (3)	763,460	-	-	763,460	5,243	100.00%	5,243	474,248	-
Weiqiang International Trade (Shanghai) Co., Ltd.(Weiqiang)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading.	211,560	(1) · (3)	211,560	-	-	211,560	6,211	100.00%	6,211	122,121	-
Weida (Zhangzhou) Consultant Service Co., Ltd. (Weida)	Consultancy	13,171	(2)	13,171	-	-	13,171	(34)	100.00%	(34)	2,421	-
Jiangsu Weiming Petrochemical Corporation(Weiming)	Petrochemical supporting facility construction	5,714,463	(1) · (2)	3,743,354	1,971,109	-	5,714,463	(174,059)	100.00%	(174,059)	5,059,219	-
Zhangzhou Weida Petrochemical Co., Ltd(Weida PC)	Engaged in trading of petroleum chemical products, electronic chemicals variety of industrial gases, gas mixtures and other manufacturing sub-fitted trading	30,648	(2)	30,648	-	-	30,648	(1,661)	100.00%	(1,661)	14,254	-
Kunshan Weiqin Management consultant Co., Ltd (Weiqin)	Management consultant	29,664	(2)	29,664	-	-	29,664	(6,693)	100.00%	(6,693)	1,834	-
Zhejiang Wedge new material Co., Ltd(Wedge)	Engaged in trading of Synthetic fiber material	31,278	(2)	31,278	-	31,278	-	13	100.00%	13	-	-
Changzhou Weicai New Material Science & Technology Co., Ltd.(Weicai) (Original name:Changzhou Huijie new material Co., Ltd (Huijie))	Engaged in engineering plastic and high valued petroleum chemical products	1,860,113	(2)	1,324,893	-	-	1,324,893	(50,911)	100.00%	(50,911)	1,039,038	-

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
8,908,317	14,362,341	Note 4

Note1: There are three ways to invest as follows:

- (a) The Company directly invests in China.
- (b) The Company through third regional company (UDL) invests in China.
- (c) Others. (The Company through subsidiaries invest in China.)

Note2: Explanation for the field “net income (losses) of the investee”:

- (a) If it is in preparation, no investment profit or loss.
- (b) There are three ways to identify the basis of investment profit or loss.
 - (b.1) financial statements audit by an international accounting firm with a relationship with a Taiwan accounting firm.
 - (b.2) financial statements audit by the Company’s audit CPA.
 - (b.3) others.

Note3: The amount in this table are presented in New Taiwan Dollar.

Note4: The cumulative investment amount or investment proportion to China cannot be over the Company’ s net value of 60%. The Company obtained certified documents of operating headquarters issued by Industrial Development Bureau, Ministry of Economic Affairs on October 18, 2018, and so is not subject to the above regulations. Valid until October 14, 2021.

(iii) Significant transactions:

The significant inter-company transactions with subsidiaries in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions”.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment information:

(a) General Information

The Group identifies Arylonitrile & Acetic Acid Department and Caprolactam department as reportable segments based on factors such as product types, manufacturing procedure, customer types, and operating activities.

The reportable segments of the Group are independent business units which offer different products and services. Each business unit needs different technologies, resources and marketing strategies, thus should administer separately. The operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment.

(b) Information for each segment's revenue / expense, asset, liability, measurement basis, and adjustment

Non-operating income and loss, income tax expense and non-recurring gain or loss is not allocated to reportable segments. In addition, not all of the profit or loss of the reportable segments include significant non-cash items other than depreciation and amortization. Total reportable segments' profit or loss is reconciled with the continuing operations' profit or loss before tax.

There was no material inconsistency between the accounting policies adopted for the operating segment and the accounting policies described in Note 4. The Group use the operating profit as the measurement for segment profit and the basis of performance assessment. Operating segments' profit and loss and total assets exclude operating expenses and assets of the corporate management.

	<u>Acrylonitrile & Acetic Acid</u>	<u>Caprolactam</u>	<u>Other</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
For the years ended December 31, 2019					
Revenue					
Revenues from external customers	\$ 10,257,450	15,157,883	4,208,761	-	29,624,094
Revenues from transactions with other operating segments of the same entity	-	-	249,499	(249,499)	-
Total segment revenue	<u>\$ 10,257,450</u>	<u>15,157,883</u>	<u>4,458,260</u>	<u>(249,499)</u>	<u>29,624,094</u>
Depreciation and amortization	<u>\$ 172,782</u>	<u>1,152,520</u>	<u>119,952</u>	<u>-</u>	<u>1,445,254</u>
Reported segment profit or loss	<u>\$ 2,072,848</u>	<u>(4,110,428)</u>	<u>3,901,052</u>	<u>-</u>	<u>1,863,472</u>
Capital expenditure of non-current assets	<u>\$ 1,111,943</u>	<u>1,934,727</u>	<u>2,252,746</u>	<u>-</u>	<u>5,299,416</u>
Segment assets	<u>\$ 4,076,676</u>	<u>13,934,202</u>	<u>78,457,612</u>	<u>-</u>	<u>96,468,490</u>
Segment liabilities	<u>\$ 2,692,554</u>	<u>5,051,889</u>	<u>21,530,183</u>	<u>-</u>	<u>29,274,626</u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018	Acrylonitrile & Acetic Acid	Caprolactam	Other	Adjustment and eliminations	Total
Revenue					
Revenues from external customers	\$ 12,011,203	23,157,176	3,334,742	-	38,503,121
Revenues from transactions with other operating segments of the same entity	-	-	238,291	(238,291)	-
Total segment revenue	<u>\$ 12,011,203</u>	<u>23,157,176</u>	<u>3,573,033</u>	<u>(238,291)</u>	<u>38,503,121</u>
Depreciation and amortization	\$ 143,171	1,188,632	52,420	-	1,384,223
Reported segment profit or loss	<u>\$ 2,808,901</u>	<u>1,211,110</u>	<u>656,939</u>	<u>-</u>	<u>4,676,950</u>
Capital expenditure of non-current assets	<u>\$ 363,188</u>	<u>663,248</u>	<u>3,020,045</u>	<u>-</u>	<u>4,046,481</u>
Segment assets	<u>\$ 5,173,756</u>	<u>13,500,076</u>	<u>71,031,122</u>	<u>-</u>	<u>89,704,954</u>
Segment liabilities	<u>\$ 2,868,366</u>	<u>5,527,184</u>	<u>14,118,650</u>	<u>-</u>	<u>22,514,200</u>

(c) **Geographical Areas**

The Group's noncurrent assets located overseas are immaterial. Revenues from domestic and overseas customers for the years ended December 31, 2019 and 2018 were as follows:

Region	For the three months ended December 31,	
	2019	2018
Operating revenue from domestic sales	\$ 20,945,478	28,747,803
Asia	8,661,506	9,351,505
Other (individual areas under 10%)	17,110	403,813
Total operating revenue	<u>\$ 29,624,094</u>	<u>38,503,121</u>

(d) **Major Customers**

Customers generating over 10% of total revenue for the December 31, 2019 and 2018 were as follows:

Customers	For the three months ended December 31,	
	2019	2018
1018	\$ 3,564,112	5,502,844
1011	3,430,779	4,675,062
1020	3,406,066	5,259,325
1019	2,511,171	4,799,812
1001	2,501,627	2,868,527