

培元·固本·創新·永續

# 台肥

## 2017 Annual Report

台灣肥料股份有限公司  
TAIWAN FERTILIZER CO.,LTD.  
<http://mops.twse.com.tw>  
<http://www.taifer.com.tw>



I. Company Spokesman:

	Spokesman	Deputy Spokesman
Name	Lo Shihjih	Huang Meiling
Title	Deputy General Manager	Finance Director
Phone Number	(02)2542-2231#706	(02)2542-2231#628
E-mail	lsj@taifer.com.tw	marilyn@taifer.com.tw

II. Address and Phone Number of General Administration and Each Plant:

General Administration Department:

Address: 6F, No. 88, Section 2, Nanjing East Road, Zhongshan District, Taipei City (104)

Phone: (02) 2542-2231 Fax: (02) 2563-4597

Keelung Plant:

Address: 171 Zhonghua Road, Zhongshan District, Keelung City (203)

Phone: (02) 2422-2151 Fax: (02) 2422-3414

Hualien Plant:

Address: 15 Huadong, Hualien City, Hualien County (970)

Phone: (038) 223181-6 Fax: (038) 221-854

Miaoli Plant:

Address: No. 210 Fuanli, Miaoli City (360)

Phone: (037) 260601-5 Fax: (037) 267-170

Taichung Plant:

Address: No. 100, Section 2, Nanti Road, Wuqi District, Taichung City (435)

Phone: (04) 2639-2358 Fax: (04) 2631-4295

III. Stock Transfer Agency:

Name: Stock Affairs Team, Taiwan Fertilizer Co., Ltd.

Website: <http://www.taifer.com.tw>

Address: 6F, No. 88, Section 2, Nanjing East Road, Zhongshan District, Taipei City (104)

Phone: (02) 2542-2231 Fax: (02) 2531-7679

IV. CPAs Who Audited and Attested the Financial Statements of the Current Year:

Names: Zeng, Guoyang 、 Lin, Hengsheng

CPA Firm: KPMG Taiwan

Address: 68F, No. 7, Section 5, Xinyi Road, Xinyi District, Taipei City (110)

Phone: (02) 8101-6666 Fax: (02) 8101-6667

Website: <https://home.kpmg.com/tw/zh/home.html>

V. Name of the Trading Venue for Overseas Securities Listed and the Way to Enquire About Overseas Securities Information: None

VI. Website of the Company: <http://www.taifer.com.tw>



## Annual Report 2017

## Table of Contents

<b>Chapter One: Report to Shareholders .....</b>	<b>1</b>
<b>Chapter Two: Company Profile.....</b>	<b>3</b>
I. Incorporation Date .....	3
II. Company History.....	3
<b>Chapter Three: Corporate Governance Report.....</b>	<b>6</b>
I. Organization System.....	6
(I) Corporation Organization .....	6
(II) Affairs in charge for each major department .....	7
II. Information on Directors, Supervisors, President, Vice Presidents, and Management Team .....	10
(I) Information on Directors and Supervisors.....	10
(II) Information on the President, Vice Presidents and Management Team.....	17
III Remuneration paid to directors, supervisors, president and vice presidents for the recent years .....	19
(I) Remuneration for directors of the board (including independent directors) (Summary of ways for coordinative disclosure of names) .....	19
(II) Remuneration for Supervisors (Summary of ways for coordinative disclosure of names) .....	21
(III) Remuneration for the President and Vice Presidents (Summary of ways for coordinative disclosure of names) .....	23
(IV) Names of Management Team for the Allotment of Employee Remuneration, and Allotment Conditions .....	25
(V) Comparison and explanation of percentage of the total remuneration for directors, supervisors, Presidents and Vice Presidents of this Company paid over the past two years by this Company and all companies in the consolidated financial statements in the net income of individuals or individual financial reports after tax, the policy of remuneration payment, the combination of standard varieties, procedure for remuneration decision, and the relevant between operation performance and future risks .....	25
IV. Corporate Governance Conditions.....	26
(I) Operation of the Board of Directors .....	26
(II) Operation of the Audit Committee or the Participation in the Board of Directors by Supervisors.....	30
(III) Conditions for Corporate Governance and Operation and Difference and Causes of Governance Practice Rules on Listed Companies .....	32
(IV) The Company should disclose the composition, function, and operation circumstances of compensation committee, if any. ....	40
(V) Performance of Social Responsibilities .....	43
(VI) Conditions for performing good faith management and measurement by the Company .....	51
(VII) Disclosure of Inquiry Ways in Case of any Formulation of Corporate Governance Rules and Relevant Regulations by the Company .....	57
(VIII) Other Important Information Enough to Enhance the Understanding of the Operation of Corporate Governance.....	57
(IX) Status of the Execution of the Internal Control System.....	58

(X)	Punishment to the Company and its Personnel by Law and Punishment to its Personnel in Breach of Internal Control Systems by the Company as well as Major Shortcomings and Improvements over the Recent Years and up to the Date of Publication of Annual Reports .....	59
(XI)	Important resolutions at the shareholders' and board of directors meetings in the most recent year and as of the date on which the annual report was printed .....	59
(XII)	Major Contents of Different Opinions of Directors or Supervisors on Important Resolutions with Records or Written Statements as Adopted by the Board of Directors over the Recent Years and up to the Date of the Publication of Annual Reports.....	61
(XIII)	Summary of conditions for resignation and dismissal of the chairman, President, accounting supervisors, financial supervisors, internal audit supervisors and research and development supervisors of the Company for the recent years and up to the date of publication of the annual report .....	62
V.	Information on CPA Professional Fees .....	62
(I)	Information of Professional Fees to CPA By Fee Range .....	62
(II)	When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are one quarter or more of the audit fees paid thereto, the amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed .....	63
(III)	When the company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amounts of the audit fees before and after the change and the reasons shall be disclosed.....	63
(IV)	When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed .....	63
VI.	Information on replacement of certified public accountant.....	64
(I)	Regarding the former certified public accountant .....	64
(II)	Regarding the successor certified public accountant.....	65
(III)	The reply from the former CPA to Article 10, Subparagraph 5, Items 1 and 2-3 of the Procedure.....	65
VII.	Where the company's chairperson, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm .....	65
VIII.	Any transfer of equity interests and/or pledge of or change in equity interests (during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report) by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report. ....	66
(I)	Information on transfer of shares.....	66
(II)	Information on pledge of equity interests .....	67
IX.	Relationship information, if among the company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another .....	68
X.	Percentage number of shares and consolidate percentage of the company, directors, supervisor, managers and the businesses that are controlled by the company directly	

or indirectly on the invested company.....	70
<b>Chapter Four: Capital Overview.....</b>	<b>72</b>
I. Capital and Shares .....	72
(I) Source of Capital Stock .....	72
(II) Structure of Shareholders.....	72
(III) Shareholding Distribution Status .....	73
(IV) List of Major Shareholders .....	73
(V) Market Price, Net Value, Earnings, Dividends Per Share of the Latest Two Fiscal Years, and Related Information .....	74
(VI) Dividend Policy and Implementation .....	75
(VII) Effect of the uncompensated rationed shares deliberated at this meeting of shareholders on the Company’s business performance and earnings per share .....	75
(VIII) Remuneration for Employees, Directors and Supervisors.....	75
(IX) Buyback of the Shares of the Company.....	77
II. Corporate Bonds.....	77
III. Preferred Stocks.....	77
IV. Overseas Depositary Receipts .....	77
V. Employee Stock Options.....	77
VI. Status of New Shares Issuance in Connection with Mergers and Acquisitions.....	77
VII. Financing Plans and Implementation.....	77
<b>Chapter Five: Operation Highlights.....</b>	<b>78</b>
I. Business Content .....	78
(I) Scope of Business .....	78
(II) Industry Overview .....	79
(III) Technology and R&D overview .....	84
(IV) Development plan of medium and long-term and short-term business .....	90
II. Overview of market and production & sales .....	93
(I) Market analysis .....	93
(II) Important use and manufacture process of main products.....	105
(III) Supply conditions of main raw materials .....	107
(IV) In the following table, the names of clients whose purchase (selling) amount is 10% or more than 10% of total amount in either year of last two years, list of main purchase or selling clients and purchase (selling) amount, proportion are listed. Besides, the reason for increase or decrease is illustrated.....	108
(V) List of yield for last two years .....	109
(VI) List of sales volume for last two years.....	110
III. Employees.....	111
(I) Data of employees for last two years till latest annual press .....	111
(II) Productivity of employees .....	111
IV. Distributed information of environmental protection.....	111
(I) Loss and punishment for environmental pollution .....	111
(II) Countermeasures and potential distribution in the future.....	112
V. Labor-capital relationship .....	112
(I) Important labor-capital agreements .....	112
(II) Employees’ actions or moral principles.....	114
(III) Employees’ further education and training .....	114
(IV) Labor-capital dispute and loss.....	114
VI. Important contracts .....	114
(I) Supply and marketing contract .....	114

(II) Cooperative contract .....	115
(III) Project and other contracts .....	117
(IV) Contract for Land Development .....	118
<b>Chapter Six: Financial Summary .....</b>	<b>119</b>
I. The Condensed Balance Sheets and Comprehensive Income Statements for the recent five years and Certified public accountants and audit opinions .....	119
II. Financial Analysis over the Recent Five Years .....	124
III. Auditing Report by Supervisors on Financial Statements over the Recent Years .....	129
IV. Financial Statements over the Recent Years .....	130
V. The most recent annual individual financial report .....	215
VI. The company and its affiliates shall disclose the impact on their financial status in the most recent year and up to and including the date of publication of the annual report .....	296
<b>Chapter Seven: Financial Status, Review and Analysis of Financial Performance and Risks</b>	<b>297</b>
I. Financial Status .....	297
II. Financial Performance .....	298
III. Cash Flow .....	299
IV. Impact to the Financial Business by the Significant Capital Expenditures in the Previous Year .....	299
V. Re-investment Overview .....	301
VI. Risk Management Organization .....	303
VII. Risk Assessment .....	305
(I) Impact of Interest Rate Change, Exchange Rate Change, and Inflation on the Company's Profit and Loss and the Countermeasures in the Future .....	305
(II) Policy on High Risk, High Leverage Investment, Capital Lending and Others, Endorsement of Guarantee and Derivative Products Trading, and Main Reasons for Profit or Loss and Countermeasures in the Future .....	305
(III) Future R&D Plan and Estimate of R&D Expenses .....	305
(IV) Impact of Important Policies and Legal Changes at Home and Abroad on the Company's Financial Business and Response Countermeasures .....	307
(V) Impact of Technological Changes and Industrial Changes to the Company's Financial Business and the Countermeasures .....	308
(VI) Impact of Corporate Image Change on Corporate Crisis Management and the Countermeasures .....	308
(VII) Expected Benefits, Possible Risks, and Countermeasures of Mergers and Acquisitions .....	308
(VIII) Expected Benefits, Possible Risks, and Countermeasures of Expansion of Plants .....	308
(IX) Risks of Purchases or Sales Concentration and Countermeasures .....	309
(X) Impact of Significant Equity Transfer of Directors, Supervisors, or Major Shareholders Holding More than 10% of the Shares of the Company, the Risks, and the Countermeasures .....	309
(XI) Impact of Changes in Operating Rights of the Company, the Risks, and the Countermeasures .....	309
(XII) Litigation or Non-litigation Events .....	310
(XIII) Other Important Risks and Countermeasures .....	313
VIII. Other Important Matters .....	313
<b>Chapter Eight: Special Records .....</b>	<b>314</b>

I.	Affiliate Information.....	314
(I)	Consolidated revenue report of affiliates.....	314
(II)	Consolidated financial report of affiliates.....	319
(III)	Relationship report.....	320
II.	Private placements of securities in the most recent year and as of the printing date of the annual report.....	320
III.	Shares of the Company that are held or disposed by a subsidiary in the most recent year and as of the printing date of the annual report.....	320
IV.	Other necessary descriptions.....	320
<b>Chapter Nine: Any event which has a material impact on shareholders' equity or securities prices, as specified in Article 36, Paragraph 2, Subparagraph 2 of the Securities and Exchange Act, in the most recent year and as of the printing date of the annual report.....</b>		<b>321</b>

## Chapter One: Report to Shareholders

### Overview of operations in 2017:

Due to the cyclical recovery of global trade in 2017, the financial environment remained loose and commodity prices stabilized. The recovery of advanced economies continued to increase, boosting civil economic confidence and getting rid of deflation. Emerging and developing economies also maintained strong trends of growth. The main international economic forecasting agency estimated that the annual economic growth rate ranged from 3.2% to 3.7%.

Looking to 2018, the global economy will continue its recovery of the business cycle in the past. In particular, at the end of last year, the United States adopted the spillover effect brought about by the tax reform policy, and the prices of major international bulk commodities rise steadily; however, the normalization of monetary policy in major countries have influence on global financial markets, potential uncertainties such as the future of economic and trade policies in the United States, the anti-establishment trend in Europe, geopolitical and terrorist attacks crisis.

Looking back at 2017, the global economy was recovering steadily. Under the management team's efforts to reduce costs and improve profitability, the company's consolidated operating revenue decreased by 4.75% compared with 2016, but the consolidated gross profit and consolidated net income increased by 29.66% and 106.14% compared with the year of 2016. Besides, Al-Jubail Fertilizer Company reinvestment income increased due to benefit from the rise in the prices of international raw materials, resulting in non-consolidated operating net income increasing by 210.53%. The final consolidated net income was NT\$1,619,126,000 dollars with a substantial increase of 2324.17% compared with 2016.

The actual production of fertilizer products in 2017 was 674,032 metric tons, with an increase of 12.33% compared with 2016; chemical products were 158,540 metric tons, with an increase of 1.53% compared with 2016. The actual sale of fertilizer products was 759,549 metric tons, which was 6.75% lower than the one in the year 2016; chemical products were 203,646 metric tons, compared to 2016 increased by 12.92%.

In terms of revenue and profit, according to the consolidated financial statements, the operating revenue for 2017 was NT\$11,658,986,000 dollars, which was 4.75% less than the operating revenue of NT\$12,240,920,000 in 2016, while the net operating income was NT\$1,227,938,000 dollars, with an increase of 106.14% compared with 2016. Non-operating net income was NT\$606,115,000 dollars, with an increase of 210.53% compared with 2016. Net income was NT\$1,619,126,000 dollars, with an increase of 2324.17% compared with 2016.

In terms of financial structure, according to the consolidated financial statements, the company's financial structure is sound. As of December 31, 2017, the total assets amounted to NT\$75,156,891,000 dollars with liabilities NT\$26,064,439,000 dollars debt ratio 34.68%, and equity is NT\$49,092,452,000 dollars. The net value per share was NT\$50.09 dollars.

In terms of fertilizer chemicals industry, the Taichung plant continued to conduct the projects such as nitric acid concentrate plan, the nitric acid new cooling Tower Plan, and plans to invest in factory construction in the Taichung Harbor West Dock 10. In addition, the Miaoli Plant continued to develop electronic-grade chemicals business. After completing the construction of the electronic-grade ammonia water production line, it will continue to invest in the NMP purification and electronic-grade ammonia production line construction project.

Regarding real estate business, the design modification for the C2 development project of Nangang Business Park was completed and was approved for urban renewal, the main construction works and curtain wall have been contracted and is conducting the connection of diaphragm wall. The development of D7-A of the Hsinchu Science and Technology Business Park was completed at the end of 2017 and was named "TFC ONE", it is the most benchmarking high-tech office building in Hsinchu area and attracted world-known technology companies such as Intel, ASML to move-in.

It is expected to lease 70% of the office building this year. The Nangang R13-1 residential development project, C4 land development project, Hsinchu D7 comprehensive planning project, Hsinchu second phase urban land readjustment implementation by the private sector, and medical zone project on Dongming Road in Keelung are accelerating.

**Summary of operating plan in 2018:**

In 2018, the company will continue to expand its existing competitive advantages, in addition to managing various business risks in a steady manner and strengthening the business performance of its various business units, will continue to actively promote the planning of the factory construction in the Taichung Harbor West Dock 10 and Production and sales of commodities such as Heiwang series of compound fertilizer and Miaoli plant electronic-grade chemistry to gradually transform and enhance the overall competitiveness of enterprises. It is expected to sell 675,000 metric tons of fertilizer products, 184,600 metric tons of chemical products, 16,000 kiloliter of electronic-grade chemicals and resell 156,000 metric tons of urea of Al-Jubail Fertilizer Company.

**Summary of future business development strategies:**

Looking forward to the future, in the face of rapid changes in the industrial and domestic environmental conditions domestically and abroad, the company will continue to uphold the business philosophy of consolidating basis, enhancing foundation, innovation and sustainability to transform and upgrade the corporate physique, and continue profitability growth, optimized competition and sustainable development as a strategic goal to build a development blueprint for two businesses such as “fertilizer chemicals business” and “real estate and investment business”, expecting to achieve the goals that company pursuit the sustainable business and development using multiple business development and business diversification. Thanks to all shareholders for your support and encouragement for the company.

We wish you perfect health and happiness

Chairman: Kang Hsinhong



## Chapter Two: Company Profile

### I. Incorporation Date:

May 1, 1946

### II. Company History:

Taiwan Fertilizer Company (TFC) established on May 1st, 1946, was originally a state-owned enterprise. In the period when it operated as a state-owned enterprise to cooperate with the agricultural policy of the government, it mainly produced fertilizer products for domestic market. With the operation and development of more than 72 years, it has been a largest modern fertilizer manufacturer in Taiwan and ensures the sufficient supply of all the fertilizers necessary for the agricultural development on every stage. It has made a great contribution to the development of the agricultural economy of Taiwan. Under the policy of transforming state-owned enterprises into non-governmental ones actively promoted by the government, it was privatized on September 1st, 1999, and is now a listed private corporation.

TFC, as the largest fertilizer manufacturer in Taiwan, annually supplies about 600,000 tons of products, accounting for above 70% of the total demand of Taiwan. TFC produces products such as ammonium sulphate, SSP, NPK fertilizer, organic fertilizer and so on and also imports urea, potassium chloride, calcium ammonium nitrate for direct sale. In addition, it produces and imports chemical products and electronic chemicals for the markets domestically and abroad. After its privatization, in order to cope with the changes in the internal and external circumstances, work with the industry development trend, promote diverse operation, besides the operation of fine fertilizers and chemicals, it has actively explored such businesses as deep ocean water, real estate development, biotechnology, healthcare products and leisure business, etc.

Looking into 2018, facing the rapid change on domestic and oversea industrial economic environment, TFC will continue to uphold its management ideas of building for the future, consolidating its foundation, being innovative, and pursuing sustainability in order to carry out the structural transition and upgrading of the enterprise. It will also continue to regard growing profit, optimized competition and sustainable development as its strategic targets and stipulate a development blueprint that includes the two major businesses of “fertilizer chemical engineering” and “real estate investment”. TFC expects that with the methods of versatile business development and versatile management, it can achieve the enterprise’s goal of sustainable management and development.

The history of the major developments of TFC until now are outlined as follows:

May 1946	Incorporated jointly by the former Resources Commission and Taiwan Provincial Government;
Dec. 1979	Authorized by Taiwan Provincial Government, TFC entered into an agreement with Saudi Arabia to establish Al-Jubail in the Kingdom of Saudi Arabia;
May 1989	The land in the Nangang Plant Area of TFC was ordered to be laid out for Nangang Economic and Trading Park;
Mar. 1995	The Executive Yuan passed the privatization of TFC;
Mar. 1998	Had the first release of stocks after privatization; with public placement by means of drawing lots, released 24.93% public stocks and smoothly completed listing;
Jul. 1998	In order to work with the overall planning and development of Nangang Economic and Trading Park of the government, Nangang Plant was formally closed;

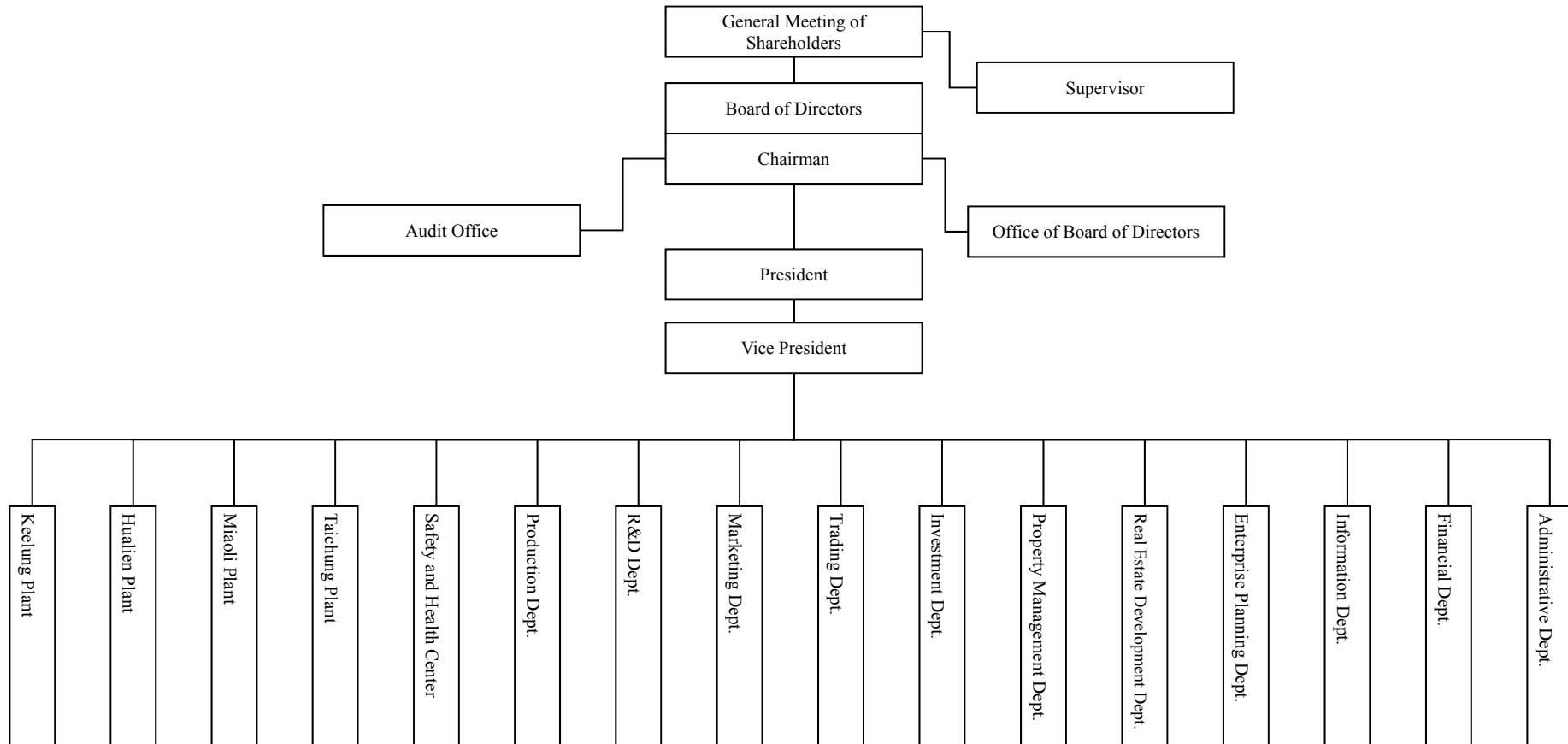
Sept. 1999	Formally transformed into a private company;
Feb. 2002	Via Hsinchu Plant, worked with Hsinchu Municipal Government for the planning and development of Hsinchu Science and Commerce New Metropolis Center Special Zone Program;
Nov. 2004	Via Hualien Plant, participated in the feasibility study report and Phase I investment plan of Deep Ocean Water Science and Technology Park;
Jan. 2005	Ministry of Economy released 200 million shares of TFC through after-hour auction and thus the shareholding ratio decreased to 24.07%;
Mar. 2005	The shares held by the government shifted to be managed by Ministry of Finance;
May 2005	The shares held by the government shifted to be managed by Commission of Agriculture (COA);
Oct. 2005	Passed the resolution for the Plan of All Plants of TFC Relocated to Taichung Port ;
Nov. 2005	The deep ocean water Phase 1 water taking facilities project of TFC in Hualien commenced;
Dec. 2005	In accordance with the regulations of Taipei Municipal Government regarding urban renewal, R13 land was invested in with the adjacent lands for the construction of congregate housing;
May 2006	By means of setting 50-year surface right, the land lots C6/C7/C8/C9 of TFC in Nangang Economic and Trading Park were to be developed by entrepreneurs; through public tender, Chinatrust Commercial Bank won the bid;
Aug. 2006	Signed the cooperative investment contract with Brand Food Company to establish Taiwan Deep Ocean Water Co., Ltd and jointly ran the business of deep ocean water producing and selling packed drinkable water/drink, etc.;
Sept. 2006	Taiwan Deep Ocean Water Company in which TFC and Brand Food Company respectively held 50% shares held the initiator meeting, had initial capital NT\$650 million dollars and completed the incorporation registration;
May 2007	The water taking engineering of TFC for deep ocean water completed the pipeline arrangement and the depth was -662m;
May 2007	The fish scale collagen protein workshop of TFC was put into operation formally;
Nov. 2007	Established TFC Foundation formally;
Nov. 2007	The miss SHARK cosmetics of TFC were formally launched;
Jun. 2009	In order to take social responsibilities, the general meeting of shareholders passed the resolution that TFC donated \$50 million for the Ministry of Agriculture of Saudi Arab to establish an agricultural center;
Sept. 2009	Chairman of TFC, and Mr. Al-Sheaibi, executive vice president of the Fertilizer Department of SABIC, jointly signed on the resolution of shareholders of Al-Jubail Fertilizer Company on the amendment to the articles of association of Al-Jubail Fertilizer Company, changing the existence of Al-Jubail Fertilizer Company from 33 years into 53 years;
May 2010	Invested NT\$1.41 billion dollars in the land for Hsinchu Plant of TFC for the development of Hsinchu Science and Business Park Phase 1;
Jan. 2011	Invested in and established Hsuchang Chemical Technology Company in Kunshan of Mainland China;
Nov. 2011	Invested NT\$100 million dollars to establish TFC Biotech Products Marketing Subsidiary in which TFC held 100% shares;
Dec. 2011	Established the Salary and Remuneration Committee;
Dec. 2012	Acquisition of 50% shares of Taiwan Deep Ocean Water Co., Ltd held by Brand Food Co., Ltd;
Jul. 2013	Taichung plant was formally launched;
Dec. 2013	Passed the “lease for leisure tourist hotel in Nangang Economic and Trading Park Land Lot C2” and signed “agreement on cooperative planning” with awarded companies “Grand Hi-Lai Hotel” and “Caesar Park Hotel”;
Feb. 2015	Passed the bidding scheme of Nangang C2 Office Building;

- Feb. 2015 Invested and established the TAIFER (CAMBODIA) CO., LTD. in Cambodia;
- Apr. 2015 The “Sea mineral 1400” produced by our invested enterprise “Taiwan Yes Deep Ocean Water Co., Ltd.” Has obtained the healthy food certification from Ministry of Health and Welfare;
- Jun. 2015 Passed the resolution in the Shareholders’ Meeting in 2015 that two independent directors added to the board;
- Aug. 2015 ChinaTrust Life Insurance Co., Ltd. and Taiwan Life Insurance Co., Ltd. jointly won the bid of Nangang C3 superficies case;
- Sept. 2015 C3 superficies case signing ceremony with ChinaTrust Life Insurance Co., Ltd. and Taiwan Life Insurance Co., Ltd.;
- Dec. 2015 Ground breaking ceremony of Nangang C2 office building and tourism hotel;
- Dec. 2015 First publication of 2014 CSR report;
- Jan. 2016 Roof beam setting ceremony of Hsinchu D7-A office building;
- Feb. 2016 The launch of a new product “# 43” HeyWon “Nitrophosphate Organic Compound Fertilizer (Humus)”;
- May 2016 The completion of the inspection of greenhouse gas in all plants;
- Aug. 2016 The undergoing of the procedure for the dissolution of Hsuchang Chemical Technology Co. invested by the Company;
- Aug. 2016 The rename of “Taiwan Fertilizer Biotechnology Co., Ltd.”, a subsidiary of Taiwan Fertilizer Co., to “Taiwan International Agricultural Development Co., Ltd.”;
- Oct. 2016 The pass of the resolution by the Board of Directors about the investment of NT\$2.367 billion dollars on the “Construction of Taichung Harbor West Dock 10” project;
- Nov. 2016 The investment of NT\$80 million dollars on “Taiwan International Agricultural Development Co., Ltd.” by the Company;
- Nov. 2016 The launch of a new product “# 4” HeyWon “Nitrophosphate Organic Compound Fertilizer (Humus)”;
- Nov. 2016 Won the “Newcomer’s Award” in 2016 TCSA;
- Dec. 2016 Exported “# 1” HeyWon “Nitrophosphate Organic Compound Fertilizer (Humus)” and “# 4” HeyWon “Nitrophosphate Organic Compound Fertilizer (Humus)” to Malaysia for further distribution;
- Mar. 2017 Exported “# 43” HeyWon “Nitrophosphate Organic Compound Fertilizer (Humus)” to Malaysia for demonstration farm and trial distribution operations;
- May 2017 Released the new product of “# 42 Biotec Organic Compound Fertilizer” to replace the compound fertilizer market of the original “# 142 Biotec Organic Compound Fertilizer” and “# 1 Instant Water Soluble Fertilizer”;
- May 2017 To promote organic materials and fertilizers, TFC cooperated with Lujing Complex Agricultural Garden at Xihu, Miaoli to establish an organic demonstration farm;
- May 2017 The Taichung Harbor West Dock 10 investment project of TFC established the new subsidiary enterprise of Peifeng Technological Co., Ltd.;
- Jun. 2017 Founded the first distribution center at Hualien;
- Jun. 2017 In coordination with government policies, the fertilizers of TFC achieved the goal of comprehensive “Biotec-lization”;
- Aug. 2017 The Hsinchu TFC ONE business building of TFC completed;
- Aug. 2017 To solve the PM 2.5 problems due to burning rice straws, TFC released “# 10 Biotec Organic Fertilizer” and “# 12 Biotec Organic Fertilizer”;
- Oct. 2017 The board of directors passed the Nangang C4 land development project;
- Nov. 2017 TFC won the “TOP 50 Corporate Sustainability Report Awards – Golden Award for Traditional Enterprises” and “Social Integration Award” of 2017 TCSA.

## Chapter Three: Corporate Governance Report

### I. Organization System

#### (I) Corporation Organization



**(II) Affairs in charge for each major department**

Name	Duties
R&D Dept.	1. Evaluation and introduction of new products and new technology.
	2. R&D of new products and technology and related business.
	3. Improvement of existing products and technology.
	4. Intellectual property management.
	5. Other relevant R&D and related business.
Trading Dept.	1. Purchase and supply of the domestic and foreign raw materials.
	2. Dispatching and inventory control of raw materials.
	3. Storage and transportation management of products and materials and treatment of dull and waste materials.
	4. Planning and execution of unloading and storage services.
	5. Work and labor bidding.
	6. Import & export and marketing and planning management of the bio-tech chemical products.
	7. Other relevant purchase and marketing of bio-tech chemical products.
Marketing Dept.	1. To market, import, export, plan and manage various fertilizers.
	2. To handle customer complaints regarding fertilizer products and bio-tech chemical products.
	3. To compile information regarding business conditions in fertilizer and bio-tech chemical products markets.
	4. To demonstrate and promote ideas of safe agriculture and fertilizer domestically and overseas.
	5. Other business about the promotions of fertilizers and bio-tech chemical products.
Investment Dept.	1. To seek for, assess, select and study investment opportunities.
	2. To research and execute domestic and overseas investment, cooperation, share participation, merger, venture capital, etc.
	3. To research and execute the technology introduction or cooperation and technical investment.
	4. To research and execute the investment business and its feasibility.
	5. To trace and review investment and reinvestment performance.
	6. To deal with other investment related businesses
Real Estate Development Dept.	1. Drawing up and managing the overall land development strategies, annual plans and individual business plans.
	2. Overall design of environment, building, landscape and interior decoration of the Company's land and construction-related business.
	3. Environmental impact assessment and deliberation of urban design.
	4. Study and preparation of the construction demand of the development case, project budget, structural system and equipment system.
	5. Acquisition of all development permissions.
	6. Preparation of the project bidding price, construction specification and construction, supervision and completion acceptance.
	7. Warranty and repairing after the completion of the project.
	8. Planning of real estate construction and relevant engineering business.
Property Management Dept.	1. Land development such as change of the urban planning, re-planning of the municipal land and the city upgrade.
	2. Planning estimation, sales and after-sales service of the residential building development.
	3. Planning estimate of commercial real estate development.

Name	Duties
	4. Utilization of the unused land and land management.
	5. Investment attraction, maintenance and management of real estate assets.
	6. Other related management and operation business of real estate and land.
Enterprise Planning Dept.	1. To research and execute operation policy, operation strategy, mid-term and long-term project plan and annual operation plan.
	2. To plan and carry forward operation and management systems; manage and evaluate operation performance;
	3. To trace and evaluate operation meeting minutes, resolutions and project affairs.
	4. To deal with authorization by levels and compile rules and regulations.
	5. To deal with other matters in relation to enterprise planning.
Information Dept.	1. To deal with the business of information system.
	2. To deal with information network.
	3. To deal with the other relevant business.
Financial Dept.	1. To develop service plan, and to dispatch and control funds.
	2. To research and develop financial strategies and conduct financial analysis and prediction.
	3. To plan and execute financial and wealth management matters.
	4. To research and develop accounting system.
	5. To conduct budget and final settlement and control cost and expense.
	6. Business related to investor relationship (IR).
	7. To deal with other matters in relation to finance, accounting and statistics.
Administrative Dept.	1. To plan and execute the HR system, plan and execute organization and HR matters.
	2. To deal with labor and capital relationship.
	3. To manage instruments and transact general affairs.
	4. To distribute and keep cash, securities, notes and deeds.
	5. To compile publications.
	6. To deal with other matters out of the duties of the other departments and offices.
Office of Board of Directors	1. Relevant administrative affairs of the Board.
	2. Preparation of annual financial reports and the minutes of shareholders' meeting.
	3. Preparation of CSR report and the publications of the Company.
	4. Promotion of corporate social responsibility as well as integrity policies.
	5. To deal with stock matters.
Audit Office	To master and manage internal control and internal audit matters.
Production Dept.	1. Planning, integrating and managing production plans.
	2. Managing production technology, quality and efficiency, and promoting the maintenance system of production equipment.
	3. Planning, integrating and managing construction plans and capital expenses.
	4. Managing fixed and idle assets other than land.
	5. Evaluating and introducing production technology.
	6. Improving production efficiency for saving energy.
	7. Managing intellectual property rights related to production technology.
	8. Other related business regarding the production management and technology development.
Safety and Health Center	1. Drawing up safety and health policies, goals, and rules and regulations.
	2. Implementing and supervising safety and health related laws and regulations.
	3. Promoting and implementing safety and health plans.

Name	Duties
	4. Auditing and assisting the safety and health business of each plant and subsidiary.
	5. Investigating, analyzing, improving and handling safety events.
	6. Managing and promoting health of employees; safety health education and training for employees.
	7. Counseling and providing information of safety health related business.
	8. Other business related to environment, safety and health.
Production Plants	Manufacturing and production management.

## II. Information on Directors, Supervisors, President, Vice Presidents, and Management Team

### (I) Information on Directors and Supervisors

#### Information on Directors and Supervisors (I)

May 1, 2018

Title	Nationality	Name	Gender	Election (Accession) Date	Terms	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions in TFC and/or Other Companies	Executives, Directors or Supervisors Who Are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relations
Chairman	R.O.C	COA		7/1/2015	3yrs	5/20/2005	235,886,376	24.07	235,886,376	24.07	-	-	-	-	-	-	-	-	-
	R.O.C	Representative: Kang Hsinhong	Male	11/24/2016	3yrs	11/24/2016	0	0	0	0	-	-	-	-	PhD in Economics, University of California - Santa Barbara President of Graduate School of Business Administration, Chairman of Dept. of Business Administration, National Cheng Kung University	Director of the Board, Jubail Fertilizer Company Chairman of Taizhuang Assets Management & Development Co., Ltd	-	-	-
Director	R.O.C	COA		7/1/2015	3yrs	5/20/2005	235,886,376	24.07	235,886,376	24.07	-	-	-	-	-	-	-	-	-
	R.O.C	Representative: Chen Chichung	Male	6/3/2016	3yrs	6/3/2016	0	0	0	0	-	-	-	-	PhD in Agriculture, Texas A&M University Chairman, Rural Economics Society of Taiwan Chief Secretary, National Chung Hsing University	Deputy Minister, Council of Agriculture, Executive Yuan	-	-	-
Director	R.O.C	COA		7/1/2015	3yrs	5/20/2005	235,886,376	24.07	235,886,376	24.07	-	-	-	-	-	-	-	-	-
	R.O.C	Representative: Huang Hsuhung	Male	10/13/2016	3yrs	10/13/2016	0	0	0	0	-	-	-	-	PhD, School of Humanities and Social Sciences, Tsinghua University in Beijing Chairman, Sunnet Inc. Chairman, Chung Ying Consuling Inc.	Chairman, Sunnet Inc. Chairman, Chung Ying Consuling Inc.	-	-	-

Title	Nationality	Name	Gender	Election (Accession) Date	Terms	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions in TFC and/or Other Companies	Executives, Directors or Supervisors Who Are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relations
Director	Taiwan	COA		7/1/2015	3yrs	5/20/2005	235,886,376	24.07	235,886,376	24.07	-	-	-	-	-	-	-	-	-
	Taiwan	Representative: Li Chaofeng	Male	5/12/2017	3 yrs	5/12/2017	0	0	0	0	-	-	-	-	MS from the Department of Architecture in National Cheng Kung University Director of Yilan County Government Construction Department	Owner of Zhaofeng Architects	-	-	-
Director	R.O.C	COA		7/1/2015	3yrs	5/20/2005	235,886,376	24.07	235,886,376	24.07	-	-	-	-	-	-	-	-	-
	R.O.C	Representative: Hsu Shengming	Male	7/1/2015	3yrs	6/24/2015	0	0	0	0	-	-	-	-	Taiwan Provincial Da Jia Agricultural and Industrial Vocational High School Senior technician, Production Section, Miaoli Plant, TFC	Chairman, United Workers Union of Taiwan Fertilizer Industries	-	-	-
Director	R.O.C	Tsai Changhai	Male	7/1/2015	3yrs	7/1/2009	356,000	0.03	356,000	0.03	-	-	-	-	PhD in Medicine, Teikyo University Chairman, China Medical University Hospital Chairman of Asia University	Chairman, China Medical University Hospital Chairman of Asia University	-	-	-
Director	R.O.C	Hsu Chinlien	Male	7/1/2015	3yrs	6/25/2013	100,000	0.01	100,000	0.01	-	-	-	-	Department of Law, National Chung Hsing University Judge of Taiwan Pingtung District Court Judge of Taiwan Kaohsiung District Court	Chairman of HSU Chinglien Law Office	-	-	-
Independent Director	R.O.C	Hsu Mingsai	Male	7/1/2015	3yrs	6/24/2015	0	0	0	0	-	-	-	-	Doctoral Program, Graduate Institute of Management of Technology, Chung Hua University Mayer of Hsinchu City	Chairman, Wan Chu Education Foundation, Director, Taiwan Blood Services Foundation	-	-	-

Title	Nationality	Name	Gender	Election (Accession) Date	Terms	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions in TFC and/or Other Companies	Executives, Directors or Supervisors Who Are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relations
Independent Director	R.O.C	Shen Huiya	Female	7/1/2015	3yrs	6/24/2015	0	0	0	0	-	-	-	-	Graduate School of National Chung Hsing University Supervisor, Central Broadcasting System	Consultant, Public Service Pension Fund Management Board, Ministry of Civil Service, Examination Yuan, Independent director, First Financial Holding, Independent director, Formosa Advanced Technology Co., Ltd., Solicitor, Chang Chun Law Office	-	-	-
Supervisor	R.O.C	Chunghwa Post Co., Ltd		7/1/2015	3yrs	7/1/2009	24,422,000	2.49	34,378,000	3.51	-	-	-	-	-	-	-	-	-
	R.O.C	Representative: Lin Chihlung	Male	11/16/2017	3yrs	11/16/2017	0	0	0	0	-	-	-	-	MS from the Department of Accounting in National Cheng Kung University	CPA of Zhili united accounting firm Independent director of Chia Her Industrial Co., Ltd Independent director of Tekho Marine Biotech Co., Ltd	-	-	-
Supervisor	R.O.C	Chen Chailai	Male	7/1/2015	3yrs	7/1/2009	100,000	0.01	100,000	0.01	-	-	-	-	Chairman of Taiwan Machinery Company Professor of National Cheng Kung University PhD in Business Administration, University of California, USA	Professor of National Cheng Kung University	-	-	-
Supervisor	R.O.C	Tsai Linglan	Female	7/1/2015	3yrs	6/27/2012	135,000	0.01	135,000	0.01	-	-	-	-	American United University Chairperson of Lan Sin Cultural and Educational Foundation Legislator of Legislative Yuan	Chairperson of Lan Sin Cultural and Educational Foundation	-	-	-

Note 1: COA dismissed its representative Yang Chenming on March 31, 2017.

Note 2: COA designated its representative Li Chaofeng on May 12, 2017.

Note 3: Chunghwa Post Co., Ltd dismissed its representative Wu Yuanjen on November 1, 2017.

Note 4: Chunghwa Post Co., Ltd dismissed its representative Lin Chihlung on November 16, 2017.

## Form 1: Key Shareholders of Corporate Shareholders

May 1, 2018

Name of Institutional Shareholder	Major Shareholders of Institutional Shareholder
Council of Agriculture, Executive Yuan	N/A
Chung Hwa Post Co., Ltd.	Ministry of Transportation and Communication

## Form 2: Key Shareholders as Corporations: None

## Information on Directors and Supervisors (II)

March 31, 2018

Conditions	Above 5-year Work Experience and Professional Qualifications as Below			Independence Criteria										Number of other public companies in which the Individual is concurrently serving as an independent director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private College	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Approved a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Name														
Kang Hsinhong	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Chen Chichung	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Huang Hsuhung			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Li Chaofeng	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Hsu Shengming			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Tsai Changhai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Hsu Chinlien		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Hsu Mingsai			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Shen Huiya	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Lin Chihlung	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Chen Chailai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Tsai Linglan			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note: Please check “✓” at the beginning of the following conditions that various directors and supervisors match in two years before appointment and during their tenure.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or a supervisor of the Company or its affiliated company (However, the independent director that the Company or its parent company or subsidiary sets according to this law or local law is not subject to this limit).

- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top 5 in holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional person who provides business, legal, financial, and accounting services for the Company or its affiliated company, an owner, a partner, a director, a supervisor, a manager of wholly-owned or partnership company/institution, or its spouse. However, the compensation committee member stated in Article 7 Fulfillment of Authority, Methods for Compensation Committee Setting Up and Authority Exercising of Stock Exchange Listing Company or Company Traded at Securities Dealer Business Office is not subject to this limit.
- (8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not a person of any conditions defined in Article 30 of the Company Law.
- (10) Not a governmental body, juridical person or its representative as defined in Article 27 of the Company Law.

## (II) Information on the President, Vice Presidents and Management Team

May 1, 2018

Title	Nationality	Name	Gender	Election (Accession) Date	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions in other Companies	Managers as Spouse or within 2-Degree Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relations
President	R.O.C	Huang Yaohsing	Male	9/1/2016	0	-	-	-	-	-	Ph.D., Graduate School of Material Science, National Chung Shan University Assistant VP, Taiwan Fertilizer Co., Ltd.,	Chairman, Taifer(Cambodia)Co.,Ltd Director of the Board, Jubail Fertilizer Company Chairman and general manager of Peifeng technology Co., Ltd.	-	-	-
Vice President	R.O.C	Lo Shihjih	Male	2/1/2013	2,381	0	-	-	-	-	Department of Business Management, Fu Jen Catholic University Head, Enterprise Planning Department, Taiwan Fertilizer Co., Ltd.	Director, Taifer(Cambodia)Co.,Ltd Director of Peifeng technology Co., Ltd.	-	-	-
Vice President	R.O.C	Chang Changlang	Male	10/1/2015	0	-	-	-	-	-	NTU Graduate Institute of Building and Planning Assistant VP, Taiwan Fertilizer Co., Ltd.,	Director of the Board, Tai Zhuang Asset Management and Development Co., Ltd. Director of Peifeng technology Co., Ltd.. Legal representative of Taiwan fertilizer (Samoa) CO., LTD. Legal representative (Executive Director) and general manager of Taiwan fertilizer (Xiamen) Trading Co., LTD. Liquidator of Hasbo Biotechnology Co.Ltd.	-	-	-
Financial Dept. Head	R.O.C	Huang Meiling	Female	5/1/2017	0	-	-	-	-	-	EMBA, Soochow University Auditor General of Taiwan fertilizer CO., LTD.	Supervisor of Dingtang energy technology Co., Ltd Supervisor of Taiwan fertilizer (Xiamen) Trading Co., LTD.. Supervisor of Peifeng technology Co., LTD.	-	-	-
Taichung Plant Head	R.O.C	Lin Chinsheng	Male	1/1/2018	32,000	0	-	-	-	-	Department of Mechanical Engineering, Cheng Shiu University Deputy plant director of Taichung plant, Taiwan fertilizer CO., LTD.	Plant director and director of the engineering department of Peifeng technology Co., LTD.	-	-	-
Keelung Plant Head	R.O.C	Chen Kuangchia	Male	8/1/2017	180	0	-	-	-	-	Chemical Engineering of Taipei engineering vocational school Management team leader of Taichung plant, Taiwan fertilizer CO., LTD.	Deputy plant director of Taichung Plant of Taiwan fertilizer CO., LTD.	-	-	-

Title	Nationality	Name	Gender	Election (Accession) Date	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Positions in other Companies	Managers as Spouse or within 2-Degree Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relations
Hualien Plant Head	R.O.C	Peng Shenlong	Male	3/1/2016	266	0	-	-	-	-	MS from the Department of Chemistry of National Tsing Hua University Chief engineer of Taichung plant, Taiwan fertilizer CO., LTD.	Plant director of Taiwan Yes Co., LTD.	-	-	-
Miaoli Plant Head	R.O.C	Tsai Changchang	Male	8/1/2017	15,498	0	-	-	-	-	Environmental Engineering Department of Lien Ho Junior College of Technology Management team leader of the Miaoli plant, Taiwan fertilizer CO., LTD.	None	-	-	-

### III Remuneration paid to directors, supervisors, president and vice presidents for the recent years

#### (I) Remuneration for directors of the board (including independent directors) (Summary of ways for coordinative disclosure of names)

March 31, 2018

Unit: NT\$K

Title	Name	Remuneration to Directors								Ratio of Total Remuneration (A+B+C+D) to After-Tax Net Income (%)		Remuneration to Concurrent Employees								Ratio of Total Remuneration (A+B+C+D+E+F+G) After-Tax Net Income(%)		Get Any Remuneration from the Invested Businesses Other than Subsidiaries		
		Salary (A)		Severance Pay (B)		Remuneration to Directors (C)		Business Execution Expense (D)		Salary, Bonus & Allowance etc. (E)		Severance Pay (F)		Remuneration to employee (G)				Exercisable Employee Stock options						
		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	Companies in the Consolidate Financial Statements	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company		All Companies in the Financial Report		The Company	All Companies in the Financial Report					
		cash	stock	cash	stock	cash	stock	cash	stock	cash	stock	cash	stock	cash	stock	cash	stock	cash	stock					
COA																								
Chairman	Representative: Kang Hsinhong																							
Director	Representative: Chen Chichung																							
Director	Representative: Huang Hsuhung																							
Director	Representative: Hsu Shengming																							
Director	Representative: Yang Chenmingg (Dismissed on 3/31/2017)	6,900	6,900	0	0	21,221	21,221	7,090	7,090	2.17%	2.17%	1,268	1,268	0	0	82	0	82	0	0	0	2.26%	2.26%	-
Director	Representative: Li Chaofeng (inauguration on 5/12/2017)																							
Natural Person																								
Director	Tsai Changhai																							
Director	Hsu Chinlien																							
Independent Director	Hsu Mingsai																							
Independent Director	Shen Huiya																							

Note 1: The Company had loss after-tax in 2016, yet the Company had net income after-tax in 2017 and it was sufficient to make up the accumulated loss. Therefore, there is no need to disclose the name of each director or supervisor and their remuneration.

Remuneration Scale Table

Bracket	Names of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report
Below NT\$2,000,000	Shen Huiya, Hsu Mingsai, Yang Chenming	Shen Huiya, Hsu Mingsai, Yang Chenming	Shen Huiya, Hsu Mingsai, Yang Chenming	Shen Huiya, Hsu Mingsai, Yang Chenming
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)	Chen Chichung, Huang Hsuhung, Li Chaofeng, Tsai Changhai, Hsu Shengming, Hsu Chinlien	Chen Chichung, Huang Hsuhung, Li Chaofeng, Tsai Changhai, Hsu Shengming, Hsu Chinlien	Chen Chichung, Huang Hsuhung, Li Chaofeng, Tsai Changhai, Hsu Shengming, Hsu Chinlien	Chen Chichung, Huang Hsuhung, Li Chaofeng, Tsai Changhai, Hsu Shengming, Hsu Chinlien
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	-	-	-	-
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)	Kang Hsinhong	Kang Hsinhong	Kang Hsinhong	Kang Hsinhong
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)	-	-	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)	-	-	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)	-	-	-	-
Above NT\$100,000,000	-	-	-	-
Total	10	10	10	10

Note 1: The names of directors of the board are listed respectively and the remuneration amounts are disclosed in summary manner.

Note 2: The amount of remuneration for directors by surplus distribution is paid by the amount of allotment adopted by the Board of Directors for Surplus Distribution for 2017.

Note 3: The remuneration for the proxy of a juridical person includes the profit payment a juridical person receives as its remuneration. The profit payment for the government shareholders, Kang Hsinhong, Chen Chichung, Huang Hsuhung, Yang Chenming, Li Chaofeng, and Hsu Shengming, designated by the COA was received by the COA and deposited in the treasury pursuant to the regulations.

Note 4: The portion of non-fixed income for president exceeding fixed income (salary for 12 months) is paid to the treasury as specified.

Note 5: The retirement pension actually paid to directors for 2017 is NT\$0, with the provision for new system retirement pension for directors accounting for NT\$0, and provision for old system retirement pension for directors accounting for NT\$0.

## (II) Remuneration for Supervisors (Summary of ways for coordinative disclosure of names)

March 31, 2018

Unit: NT\$K

Title	Name	Remuneration to Supervisors						Ratio of Total Remuneration (A+B+C) to After-Tax Net Income (%)		Get Any Remuneration from the Invested Businesses Other than Subsidiaries
		Salary (A)		Remuneration(B)		Business Execution Expense (C)		The Company	All Companies in the Financial Report	
		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report			
Chung Hwa Post Co., Ltd.										
Supervisor	Representative: Wu Yuanjen (resignation on 11/1/2017)	0	0	9,095	9,095	720	720	0.61%	0.61%	-
Supervisor	Representative: Lin Chihlung (inauguration on 11/16/2017)									
Natural person										
Supervisor	Tsai Linglan									
Supervisor	Chen Chailai									

Remuneration Scale Table

Bracket	Supervisor	
	Total of (A+B+C)	
	The Company	All Companies in the Financial Report
Below NT\$2,000,000	Lin Chihlung	Lin Chihlung
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)	Tsai Linglan, Chen Chailai, Wu Yuanjen	Tsai Linglan, Chen Chailai, Wu Yuanjen
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	-	-
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)	-	-
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)	-	-
Above NT\$100,000,000	-	-
Total	4	4

Note 1: The names of supervisors are listed respectively and the remuneration amounts are disclosed in summary manner.

Note 2: The surplus bonus to supervisors is recognized with the amount to be distributed approved at the surplus distribution meeting of the board of Directors of 2017.

Note 3: The salary amount for the legal representative includes the surplus bonus to the juridical person;

Note 4: For FY2017, the actual severance pay to supervisors is NT\$0. The new system severance pay to supervisors provided is NT\$0 and the old system severance pay to supervisors provided is NT\$0.

## (III) Remuneration for the President and Vice Presidents (Summary of ways for coordinative disclosure of names)

March 31, 2018

Unit: NT\$K

Title	Name	Wage (A)		Severance Pay (B)		Bonus and Special Expense (C)		Profit Sharing-Employee Bonus (D)				Ratio of Total Remuneration (A+B+C+D) to After-tax Net Income (%)		Exercisable Employee Stock Options		Number of New Shares for Acquisition of Employee' Rights		Get Any Remuneration from the Invested Businesses Other than Subsidiaries
		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company		All Companies in the Financial Report		The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	The Company	All Companies in the Financial Report	
								Cash	Stock	Cash	Stock							
President	Huang Yaohsing	7,871	7,871	5,782	5,782	10,199	10,199	559	-	559	-	1.51%	1.51%	-	-	-	-	-
Vice President	Lo Shihjih																	
Vice President	Chang Changlang																	
Vice President	Chen Hsinchang (Retired on 8/1/2017)																	

Remuneration Scale Table

Bracket	President and Vice President's Name	
	The Company	All Companies in the Financial Report
Below NT\$2,000,000	-	-
NT\$2,000,000 (inclusive) ~ NT\$5,000,000 (exclusive)	Lo Shihjih, Chang Changlang	Lo Shihjih, Chang Changlang
NT\$5,000,000 (inclusive) ~ NT\$10,000,000 (exclusive)	Huang Yaohsing, Chen Hsinchang	Huang Yaohsing, Chen Hsinchang
NT\$10,000,000 (inclusive) ~ NT\$15,000,000 (exclusive)	-	-
NT\$15,000,000 (inclusive) ~ NT\$30,000,000 (exclusive)	-	-
NT\$30,000,000 (inclusive) ~ NT\$50,000,000 (exclusive)	-	-
NT\$50,000,000 (inclusive) ~ NT\$100,000,000 (exclusive)	-	-
Above NT\$100,000,000	-	-
Total	4	4

Note 1: The names of president and vice presidents are listed respectively and the remuneration amounts are disclosed in summary manner.

Note 2: The surplus bonus to directors is recognized with the amount to be distributed approved at the surplus distribution meeting of the Board of Directors of 2017.

Note 3: The portion of non-fixed income for president exceeding fixed income (salary for 12 months) is paid to the treasury as specified.

Note 4: The retirement pension of General Manager and Deputy General Manager paid in 2017 was NT\$5,782,000. The new-system pension payable to General Manager and Deputy General Manager was NT\$108,000; the old-system pension payable to General Manager and Deputy General Manager was NT\$708,000.

**(IV) Names of Management Team for the Allotment of Employee Remuneration, and Allotment Conditions**

March 31, 2018

Unit: NT\$K

	Title	Name	Bonus in Stock	Bonus in Cash	Total	Ratio of Total Amount to After-Tax Net Income (%)
Managerial Officers	President	Huang Yaohsing				
	Vice President	Lo Shihjih				
	Vice President	Chang Changlang				
	Vice President	Chen Hsinchang (Retired on 8/1/2017)	-	763	763	0.05%
	Finance Dept. Head	Chien Chaojen (Retired on 4/30/2017)				
	Finance Dept. Head	Huang Meiling (Inauguration on 5/1/2017)				

**(V) Comparison and explanation of percentage of the total remuneration for directors, supervisors, Presidents and Vice Presidents of this Company paid over the past two years by this Company and all companies in the consolidated financial statements in the net income of individuals or individual financial reports after tax, the policy of remuneration payment, the combination of standard varieties, procedure for remuneration decision, and the relevant between operation performance and future risks:**

Year	After-tax Net Income (NT\$K)	Director	Supervisor	Managerial Officers
2016	-129,503	-7.85%	-0.56%	-17.38%
2017	1,619,126	2.26%	0.61%	1.51%

Note 1: According to the articles of association of the Company, the salary of the chairman is 1.25 X the income of the president, and the other directors of the board and supervisors might get NT\$ 20,000 traffic fee per month as compensation. However, the remuneration for the independent director is NT\$ 60,000 per month, and the independent director is not allowed to participate the allocation of remuneration for directors and supervisors.

Note 2: According to the articles of association of the Company, after the provision of reserves, the after-tax net income will be put aside 1.6% as the compensation for Directors and Supervisors, and 2.4% as bonus to employees.

#### IV. Corporate Governance Conditions

##### (I) Operation of the Board of Directors

The board of directors convened 12 meetings (A) in 2017. The attendance of the directors and supervisors is described below:

Title	Name	Attendance in Person (B)	Actual Attendance in Person	Attendance by Proxy (%) (B / A)	Remarks
Chairman	COA Representative: Kang Hsinhong	12	0	100%	
Director	COA Representative: Chen Chichung	10	0	83.33%	
Director	COA Representative: Huang Hsuhung	12	0	100%	
Director	COA Representative: Yang Chenming	2	0	66.67%	Dismissed on 3/31/2017
Director	COA Representative: Li Chaofeng	6	0	75%	Appointed on 5/12/2017
Director	COA Representative: Hsu Shengming	12	0	100%	
Director	Tsai Changhai	7	0	58.33%	
Director	Hsu Chinlien	11	0	91.67%	
Independent Director	Hsu Mingtsai	11	0	91.67%	
Independent Director	Shen Huiya	12	0	100%	
Supervisor	Chunghwa Post Co., Ltd. Representative: Wu Yuanjen	10	0	100%	Dismissed on 11/1/2017
Supervisor	Chunghwa Post Co., Ltd. Representative: Lin Chihlung	2	0	100%	Appointed on 11/16/2017
Supervisor	Chen Chailai	11	0	91.67%	
Supervisor	Tsai Linglan	10	0	83.33%	
Other matters to be recorded:					
I. If the operation of board of directors matches one of the following conditions, it is required to specify dates, number of meetings and content of proposals of directors, opinions of all independent directors and response to the opinions of independent directors on the Company.					
(I) For matters set in the Article 14-3 of Security Exchange Act.					

1. The 19<sup>th</sup> meeting of the 33<sup>rd</sup> board of directors on February 17, 2017
  - (1) Proposal: Please ratify the matters regarding the audit of the 2017 annual financial report, the income tax return, and the 2016 undistributed earnings reporting business. We intend to appoint KPMG to take the responsibility (annual service fee NT\$ 3.9 million dollars) and authorize the administration department to sign the retainer service agreement.  
Independent directors' opinion: Suggestion about the amendment of the service agreement.  
Response to independent directors' opinion: The contents of the service agreement were amended as the board of directors determined.
2. The 20<sup>th</sup> meeting of the 33<sup>rd</sup> board of directors on March 24, 2017
  - (1) Proposal: Please ratify the payment of the 2016 remuneration to the directors, supervisors and employees.  
Independent directors' opinion: No opinion.
  - (2) Proposal: Please ratify the matter regarding the amendment of the "Regulations Governing the Acquisition and Disposal of Assets" in accordance with related laws.  
Independent directors' opinion: No opinion.
  - (3) Proposal: Please ratify the amendment of the "Internal Control Systems for service departments"  
Independent directors' opinion: No opinion.
3. The 21<sup>st</sup> meeting of the 33<sup>rd</sup> board of directors on April 27, 2017
  - (1) Proposal: Please ratify the promotion of Huang Meiling from the position of auditor general to the head of finance department in effect on May 1, 2017.  
Independent directors' opinion: No opinion.
  - (2) Proposal: Please ratify the promotion of Zhong Junming from the leader of the investment developing team of the Business Development Department to the position of auditor general in effect on May 1, 2017.  
Independent directors' opinion: No opinion.
4. The 22<sup>nd</sup> meeting of the 33<sup>rd</sup> board of directors on May 23, 2017
  - (1) Proposal: Please ratify the matter of the first supplementary arrangement for the cooperation and planning agreement to be entered into with the Grand Hi Lai Hotel Co., Ltd. to decrease the investment and development risk of the Nangang C2 Project. Moreover, the Company plans to raise the performance bonds to NT\$ 3 billion dollars to ensure mutual rights and obligations.  
Independent directors' opinion: Suggestion that more communication be made with the counterparty to avoid future disputes.  
Response to independent directors' opinion: The Company will discuss and communicate with the counterparty again.
5. The 23<sup>rd</sup> meeting of the 33<sup>rd</sup> board of directors on June 27, 2017
  - (1) Proposal: Please ratify the matters on adjusting the developing strategy of the C2 development project in Nangang District, Taipei City Economic and Trade Section, Land no. 12, and review the financial operation model.  
Independent directors' opinion: No opinion.
6. The 25<sup>th</sup> meeting of the 33<sup>rd</sup> board of directors on August 22, 2017
  - (1) Proposal: Please ratify the matter of the first supplementary arrangement for the cooperation and planning agreement to be entered into with the Grand Hi Lai Hotel Co., Ltd. regarding the "C2 tourism hotel solicitation project in

Nangang Economic and Trade Section” to ensure mutual rights and obligations.

Independent directors’ opinion: No opinion.

7. The 27<sup>th</sup> meeting of the 33<sup>rd</sup> board of directors on October 30, 2017

(1) Proposal: Please ratify the matter about the business office building development project on the C4 block land (Nangang District, Taipei City Economic and Trade Section, Land No. 39, 39-1) owned by the Company. Details are as described.

Independent directors’ opinion: No opinion.

8. The 28<sup>th</sup> meeting of the 33<sup>rd</sup> board of directors on November 28, 2017

(1) Proposal: Please ratify the matters regarding the audit of the 2018 annual financial report, income tax return and the audit of the 2017 undistributed earnings reporting business. We intend to appoint KPMG to take the responsibility again.

Independent directors’ opinion: No opinion.

(2) Proposal: Please ratify the matter on drawing up 2018 audit plan of the Company.

Independent directors’ opinion: No opinion.

(II) Other resolutions, except for the above-mentioned ones, in the board of directors meeting about which any independent director expresses dissent or reservation and a record or written statement is made.

1. The 21<sup>st</sup> meeting of the 33<sup>rd</sup> board of directors on April 27, 2017

Proposal: Audit Office’s audit report of March 2017.

Independent directors’ opinion: Detailed audit shall be made a gain regarding the issues the supervisor, Chen Chilai, brought up in writing on Apr. 27, 2017, especially the matters related to the subsidiary, Taiwan Yes Co., Ltd.

2. The 22<sup>nd</sup> meeting of the 33<sup>rd</sup> board of directors on May 23, 2017

Proposal: Audit Office’s audit report of April 2017.

Independent directors’ opinion: Detailed audit shall be made regarding the accounts receivable and stocks of Taiwan Yes Co., Ltd. as stated in the report.

II. As for the implementation status of recusal bearing on the interest of a director is involved, the name of the director, proposal, reasons for the recusal, and participation in the voting shall be described.

(I) The 18<sup>th</sup> meeting of the 33<sup>rd</sup> board on January 18, 2017

Proposal: Please ratify the 2016 year-end bonus and operation performance bonus for the vice president or higher.

Directors that recuse: Director Kang Hsinhong.

Reason for recusal: Conflict of interest.

Participating in the voting: No.

(II) The 24<sup>th</sup> meeting of the 33<sup>rd</sup> board on July 25, 2017

Proposal: Please ratify the matter that the Company designated representatives of juridical person, Chen Chichung and Chen Yuren, to participate in the election of the 3rd board of directors in “Mitagri Co., Ltd.”.

Directors that recuse: Director Chen Chichung

Reason for recusal: Conflict of interest.

Whether participating in the voting: No.

III. The goals for enhancing the competence of the board of directors (e.g. establishing an audit committee and improving the information transparency) in the current and most recent years.

(I) The Company plans to establish an audit committee comprising 3 independent directors at

the 34<sup>th</sup> board of directors meeting in 2018.

**(II) Operation of the Audit Committee or the Participation in the Board of Directors by Supervisors**

1. Operation of the audit committee: N/A
2. Attendance of supervisors for board meeting

The board of directors convened 12 meetings (A) in 2017. The attendance of the directors and supervisors is described below:

Title	Name	Actual Attendance (B)	Attendance Rate (%) (B/A)	Remarks
supervisor	Chunghwa Post Co., Ltd. Representative: Wu Yuanjen	10	100%	Dismissed on 11/1/2017
supervisor	Chunghwa Post Co., Ltd. Representative: Lin Chihlung	2	100%	Appointed 11/16/2017
supervisor	Chen Chailai	11	91.67%	
supervisor	Tsai Linglan	10	83.33%	

Other matters to be recorded:

I. Composition and responsibilities of supervisors:

(I) Communication of the supervisors with the employees and shareholders of the Company (such as communication channels and ways, etc)

1. The supervisors of the Company attend the board of directors meeting every year.

(II) Communication of the supervisors with the internal audit officer and accountants: (such as status, ways and results of communication with the Company's finance, business, and etc).

1. **The communication between the supervisors and the CPAs**

Meeting Date	Communication Point
March 20, 2018	<ol style="list-style-type: none"> <li>1. The CPA explained the 2017 financial condition and loss and profit status, and promoted the awareness of some newly amended accounting principles and laws.</li> <li>2. The CPA discussed and communicated with the attendants in the meeting with respect to the issues being brought up.</li> </ol>

2. **The communication between the supervisor and the internal audit head**

(1) The internal audit head submits the audit report to the board of directors every month.

(2) The 2017 communication meeting minutes of the Taiwan Fertilizer Co., Ltd.'s supervisors and the internal audit head.

- Time: March 24, 2017 (Friday) 13:30
- Location: The meeting room on the 7<sup>th</sup> floor, Taiwan Fertilizer Co., Ltd.
- Presider: Supervisor Wu Yuanjen
- Attendance: Supervisor Tsai Linglan, Supervisor Chen Chailai, Auditor General Huang Meiling. Recording: Chen Shufen

Reports and Discussion	Description	Suggestion and Result
I. Annual audit	1. The 2017 annual audit plan was reported on	No objection.

reporting matters (Auditing has to be reported within the time frame specified by the Financial Supervisory Commission.)	December 28, 2016. 2. The 2017 auditors name list and training hours were reported on January 6, 2017. 3. The implementation of the 2016 annual audit plan was reported on February 22, 2017. 4. The 2016 internal control system statement was announced on March 28, 2017.	
II. The Q1 audit report in 2017	Matters shall be audited according to the audit plan: 1. Audit of 56 items (including each 11 items of the Miaoli Plant and Taichung Plant respectively) such as 8 operating cycles, compliance with laws and regulations, computer information and management matters. 2. Participating in a total of 12 audit items including supervising the procurement and outsourcing tenders of raw materials, engineering, and services arranged by the Trading Department according to the Engineering and Service Outsourcing Management Guidelines. 3. Participating in a total of 22 audit items including the evaluation and acceptance inspection activities organized by each engineering (or service) organizer according to the Engineering and Service Outsourcing Management Guidelines. 4. Participating in the inspection of land property organized by the Property Management Department.	No objection.
III. Audit follow-up projects	1. The land-leasing project, Zhonghua Section, Luodong, Yilan. 2. The Wushuang Project in Nangang.	No objection.
IV. Other discussions	None	None

II. If there is any opinion made by supervisors attending the Board of Directors, it is required to specify dates and number of meetings of the Board of Directors, content of proposals, results of the meetings of directors as well as the response to the opinions of supervisors on the Company.

1. The 21<sup>st</sup> meeting of the 33<sup>rd</sup> board of directors on April 17, 2017  
Proposal: Please refer to the 2016 final accounts files that supervisors reviewed.  
The board of directors' resolution: Noted.
2. The 27<sup>th</sup> meeting of the 33<sup>rd</sup> board of directors on October 30, 2017.  
Proposal: Please ratify the 2016 year-end bonus for the vice president of the Company.  
The board of directors' resolution: Please ask the appointed attorney to send opinion letters regarding the issue in question to all the directors and supervisors for reference.

**(III) Conditions for Corporate Governance and Operation and Difference and Causes of Governance Practice Rules on Listed Companies**

Items assessed	Operation circumstances			Difference from the code on the governance of listed companies and OTC companies and cause
	Yes	No	Abstracts	
I. Does the Company prepare and disclose the code on the governance of the Company according to the Code of Governance of the Listed Companies and OTC Companies?	V		The Company has prepared and disclosed the code on the governance of the Company according to the Code of Governance of the Listed Companies and OTC Companies.	No difference
II. Shareholding structure and shareholders' rights of the Company	V			No difference
(i) Does the Company prepare the internal operation procedures to deal with the shareholder's suggestions, doubts, dispute and lawsuit, and execute such procedures indeed?			(i) The Company prepared the internal regulations to prevent its personnel from trading the securities in virtue of the information that is not open to the public of proposals, and results of the meetings.	
(ii) Does the Company grasp the main shareholders that control the Company and the name list of final controllers of the main shareholders?			(ii) The Company established a stock affair team under the Board of Directors Office to manage the major shareholders that actually control the Company and name list of the persons who ultimately control the major shareholders. The team is also responsible for reporting the change of information in accordance with the regulations.	
(iii) Does the Company establish and perform the risk control and firewall mechanism with the affiliates?			(iii) The Company shall also prepare the Operation Procedure of Capital Loan and the Endorsement Guarantee in order to establish the proper risk control mechanism and firewall with the affiliates. The business contact between the Company and all of the affiliates should be handled after the signature of the contract and submission to the board of directors for deliberation.	
(iv) Does the Company prepare the internal regulations to prevent its			(iv) The Operation Procedure on the Treatment of Major Information inside Taiwan Fertilizer Co., Ltd. has been drafted to regulate the	

Items assessed	Operation circumstances			Difference from the code on the governance of listed companies and OTC companies and cause
	Yes	No	Abstracts	
personnel from trading the securities in virtue of the information that is not open to the public?			directors, supervisors, managers, employees and the personnel who are in other identities, occupations or controlling relationship but acquire the major internal information of the Company. Those who are prohibited to do any inside trades.	
III. Composition and responsibilities of board of directors	V			There is a difference. The Company has a standard for performance evaluation of the board of directors, but does not have regulations governing the performance evaluation of the board of directors.
(i) Does the board of directors require the members to prepare the diversified policies and then implement these policies?			(i) To create good and though practice principles for the Company, we have established the Practice Principles for Taiwan Fertilizer Co., Ltd. Article 20 of the Principles clearly states the diverse policies of the board of directors. The formation of the board of directors shall take into account the organizational culture, business model and long-term development, including but not limited to genders, age, nationality and culture. The directors shall have good education, experience and knowledge in the industry and professional background to put the diverse policies of the board of directors into practice and complete its organization. Currently, the board of directors of Taiwan Fertilizer Co., Ltd consists of 9 directors, including 2 independent directors and one of them is a female. Every director has a different specialty such as business management, agriculture, medical biotechnology, architecture, laws, and risk management. The age range of the directors is basically from 55 to 65 to form a diverse and professional combination of academic knowledge and experiences. The directors also complement each other to make the business strategy broader and more thorough. The professional specialty of each director is detailed in Note 1.	
(ii) In addition to the salary and welfare committee and the audit committee, is			(ii) In addition to the Salary Remuneration Committee, we plan to	

Items assessed	Operation circumstances			Difference from the code on the governance of listed companies and OTC companies and cause
	Yes	No	Abstracts	
the Company willing to set up other committees with similar functions?			establish an audit committee in 2018.	
(iii) Does the Company prepare the performance appraisal method of the board of directors as well as the mode of appraisal, and conduct a regular performance appraisal on a yearly basis?			(iii) The operation performance appraisal standard of the board of directors of the Company means appraising the indexes such as if the annual settlement and operation interests reach those of the previous year, the control rate of the annual settlement and operation interests, growth rate of the operation interests or if exceeding the target.	
(iv) Does the Company appraise the independence of the certified public accountants on a regular basis?			(iv) The Company does regular assessments of accountant independence each year. On October 30, 2017, an appraisal for the independence of CPAs was approved by its Board of Directors. Based on Article 47 of Law on Certified Public Accountant and No. 10 Bulletin of Code of Ethics for Professional Accountants, the Company prepares Independent Evaluation Form for CPAs (Note 2), evaluates all conditions that may affect the independency of CPAs, and also asked CPAs to issue Absolute Declaration of Independence.	
IV. Does a listed company or an OTC company have a corporate governance full-time (or part-time) organization or person who takes charge of the corporate governance related affairs (including but not limited to providing data as required by directors or supervisors executing business, handling matters related to board of directors and shareholders meeting, handling company registration and change of	V		The Company takes the board office as its corporate governance full-time organization. This office is responsible for corporate governance related affairs, including promoting the corporate governance rules, providing data as required by directors or supervisors executing business, handling matters related to board of directors and shareholders meeting, handling company registration and change of registration, taking minutes of the board of directors and shareholding meeting, etc.	

Items assessed	Operation circumstances			Difference from the code on the governance of listed companies and OTC companies and cause
	Yes	No	Abstracts	
registration, taking minutes of the board of directors and shareholding meeting, etc.)?				
V. Does the Company have a channel to communicate with interested parties, as well as a special zone for the interested parties on the website of the Company, and properly respond to the critical issues regarding the social responsibilities of the Company as concerned by the interested parties?	V		The Company has a spokesman. If required by the interested parties, they can communicate with its spokesman or its business unit(s) at any time. The communication channel is smooth. The special zone for the interested parties is set in the website of the Company to respond the issues concerned by the interested parties properly.	No difference
VI. Does the Company entrust a professional stock agency?		V	The Company has issued stocks in public by itself and deals with the stock matters according to the criteria of stock treatment and the internal control system.	Difference: the Company handles stock matters solely.
VII. Information disclosure	V			No difference
(i) Does the Company establish the website and disclose the information about finance and governance of Company?			(i) The Company has set the special column for serving the investors in its website in both Chinese and English versions, disclosing the information about finance and governance of Company and providing it to the investors for reference on a regular basis.	
(ii) Does the Company implement other ways to disclose information (such as English website, a designated person to collect and disclose the Company's information, implementing the spokesman system and putting the process of legal person forum on the Company's website)?			(ii) 1. The Company provides its English version of the critical news such as the annual reports, a handbook for shareholders' meeting, and a notice of shareholders' meeting, which the Company's operation information is fully disclosed in its website. 2. A staff of the Company is designed to issue the news of the Company, and also collect and contact all of media information.	

Items assessed	Operation circumstances			Difference from the code on the governance of listed companies and OTC companies and cause
	Yes	No	Abstracts	
			3. The data of the legal person forum will be shown on the Company's website. And, a specially-assigned staff of the Company will disclose the major information of the Company on the website, too.	
VIII. Does the Company have the major information that can help understand how the Company operates its governance (including but not limited to the rights and interests of employees, employee care, relationship of investors, relationship of suppliers, rights of the interested parties, further study of directors and supervisors, implementation of risk management policies, risk balance standard and client's policies and the liability insurance purchased for the Company's directors and supervisors)?	V		<p>(i) Rights and interests of employees as well as employee care: Adhering to the principle that Taiwan Fertilizer is a family, the Company has established the Welfare Committee of Employees to provide employees excellent and considerate welfare activities and caring projects.</p> <p>(ii) Relationship of investors: The Company aims at ensuring the rights and interests of the shareholders and treats all of them equally. According to the relevant provisions of the competent securities authority, the Company issues the major news such as the finance, business and change of the shareholders at Observation Website for News Disclosure.</p> <p>(iii) Relations with suppliers: The Company reviews the supplier's quality capacity, delivery capacity, service team capacity, etc. on a regular basis according to supplier management methods of the Company, to stabilize material quality and to ensure material source safety. In regard to suppliers, the Company not only emphasizes the supplier's quality, price, delivery time, etc. but also concerns human rights, labor welfare, workplace safety, etc., so as to establish a sustainable supply chain system that develops stably. Now, supplier CSR management is gradually introduced. First, the Company promotes supplier self-assessment to know the supplier operating risks, providing the basis for promotion of supplier CSR management and leading suppliers to develop a production and sales model that is better to environment.</p>	No difference

Items assessed	Operation circumstances			Difference from the code on the governance of listed companies and OTC companies and cause
	Yes	No	Abstracts	
			<p>(iv) Rights of the interested parties: The Company always abides by the principle of integrity in maintaining and safeguarding the rights of the interested parties. The Company also provides a smooth communication channel for different kinds of interested parties to express their opinions at all times.</p> <p>(v) Further study of directors and supervisors: Subject to the provisions of Key Points on the Promotion of Further Study of the Directors and Supervisors of Listed Companies and OTC Companies of Taiwan Stock Exchange Co., Ltd., please refer to Name List of Directors and Supervisors for Further Study at the Observation Website or visit the official website of the Company.</p> <p>(vi) Implementation of risk management policies and risk balance standard: Subject to the Criteria on the Treatment of Internal Control System of the Company, the risk management policy and the risk evaluation standard of the Company are prepared according to the suitability of the Company objective and the units at different levels of the Company. The goals and the result of risk evaluation are set to help the Company to design, modify and implement the control required on a timely basis.</p> <p>(vii) Implementation of client policies: The Company has prepared Details on the Management of Customer Relationship. Its business departments have set up the customer service center to communicate with customers.</p> <p>(viii) Purchase of insurance for directors and supervisors: We have taken out liability insurance for directors and supervisors with Chung Kuo Insurance as the insurer according to relevant regulations. The insurance period is from April 1, 2017 to April</p>	

Items assessed	Operation circumstances			Difference from the code on the governance of listed companies and OTC companies and cause
	Yes	No	Abstracts	
			1, 2018.	
<p>IX. Please state the situation of improved suppliers according to the corporate appraisal results released by the corporate governance center of Taiwan Stock Exchange Corporation in the most recent year, and put forward the priorities to be strengthened and measures for unimproved suppliers. (Those who are not listed in appraised companies need not be stated)</p> <ol style="list-style-type: none"> <li>1. The Company has set up a compensation committee, and more than half of the members of compensation committee after 2018 will be independent directors in the planning.</li> <li>2. The Company plans to set up an auditing committee conforming to rules in 2018. This committee should consist of 3 or more independent directors, and at least one person shall be talent accounting or finance.</li> <li>3. The Company has gradually built a complete official website in English for investor information.</li> </ol>				

Note 1: Diversification among the members of the board of directors

Title	Name	Gender	Profession specialty and ability							
			Operational Judgment	Accounting and Financial	Management and Administration	Risk Management	Knowledge of Industry	International Market Perspective	Leadership	Strategies making
Chairman	Kang Hsinhong	M	✓	✓	✓	✓	✓	✓	✓	✓
Director	Chen Chichung	M	✓		✓	✓	✓	✓	✓	✓
	Huang Hsuhung	M	✓	✓	✓	✓	✓	✓	✓	✓
	Li Chaofeng	M	✓		✓	✓	✓	✓	✓	✓
	Hsu Shengming	M	✓			✓	✓		✓	✓
	Tsai Changhai	M	✓	✓	✓	✓	✓	✓	✓	✓
	Hsu Chinlien	M	✓		✓	✓	✓		✓	✓
Independent Director	Hsu Mingsai	M	✓	✓	✓	✓	✓		✓	✓
	Shen Huiya	F	✓	✓	✓	✓	✓	✓	✓	✓
Supervisor	Lin Chihlung	M	✓	✓	✓	✓	✓	✓	✓	✓
	Chen Chailai	M	✓	✓	✓	✓	✓		✓	✓
	Tsai Linglan	F	✓	✓	✓	✓	✓		✓	✓

Note 2: The CPA independence evaluation chart of Taiwan Fertilizer Co., Ltd (2017)

Item Evaluated	Violation of Independence
1. Having a direct or material indirect financial interest in the Company.	NO
2. Having financing or guaranteed behaviors with the Company, the directors or supervisors.	NO
3. Members of the audit service team have significant close business relationships with the Company or any director, supervisor or manager of the Company.	NO
4. The audit service team has potential employment negotiations with the Company.	NO
5. Entering into a contingent fee arrangement relating to the audit engagement.	NO
6. An audit service team member of the accounting firm being, or having been a director, supervisor or manager of the Company, or employed by the Company in a position to exert significant influence over the subject matter of the audit engagement within the last two years.	NO
7. The non-assurance service that was performed by the accounting firm is provided.	NO
8. A member of the audit service team has a close or immediate family member who is a director, supervisor, or manager of the Company or an employee of the Company who is in a position to exert significant influence over the subject matter of the audit engagement.	NO
9. A member of the audit service team accepts significant gifts from the Company, the director, supervisor or managers of the Company.	NO
10. A member of the audit service team being asked by the Company to agrees with the inappropriate choice in accounting or the inappropriate disclosure on financial report conducted by the management.	NO
11. The audit service team is pressured to reduce the auditing that shall be performed in order to cut down the fees.	NO
12. The audit engagement is performed by the same CPA over 7 years.	NO

**(IV) The Company should disclose the composition, function, and operation circumstances of compensation committee, if any.**

## 1. Information of compensation committee members

Status	Name	Conditions	Above 5-year Work Experience and Professional Qualifications as Below			Independence Criteria (Note 1)								Number of companies which the Company's committee members also hold positions in the compensation committee of other public company	Remarks
			An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private College	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Approved a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Hsu Mingsai			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	Assigned on 7/1/2015
Other	Wang Mingting			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Other	Wang Jihchun		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note 1: Please check "✓" at the beginning of the following conditions that various directors and supervisors match in two years before appointment and during their tenure.

- (1) Not an employee of the Company or any of its affiliates.
- (2) Not a director or supervisor of the Company or its affiliated company. However, the independent director that the Company or its parent company or subsidiary sets according to this law or local law is not subject to this limit.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top 5 in holdings.
- (6) Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.

- (7) Not a professional person who provides business, legal, financial, and accounting services for the Company or its affiliated company, an owner, a partner, a director, a supervisor, a manager of wholly-owned or partnership company/institution, or its spouse.
- (8) Not a person of any conditions defined in Article 30 of the Company Law.

## 2. Information on compensation committee operation circumstances

(1) The Company's compensation committee consists of 3 members.

(2) Current tenure: July 1, 2015–June 30, 2018. In the most recent year, the compensation committee held 5 meetings (A). Members' qualification and attendance are listed below:

Title	Name	Attendance in Person (B)	Attendance on commission	Actual attendance rate (%) (B/A)	Remarks
Convener	Hsu Mingsai	5	0	100	
Member	Wang Mingting	5	0	100	
Member	Wang Jihchun	5	0	100	

Other matters to be recorded:

- I. If the board of directors does not accept or modify the suggestions from the Remuneration Committee, the date and the number of times of the meeting, contents of the proposal, the board of directors' resolution, and the response of the Company to the suggestions shall be stated. (If the remuneration approved by the board of directors is higher than the Remuneration Committee suggests, the difference and the reason shall be stated.) :
1. The 18 session of the thirty-third Board meeting on January 18, 2017
    - (1) Motion: Please review and approve the year-end bonus and performance bonus for the company's Deputy General Managers or above for 2016.
    - Resolution : 1. The year-end bonus for the Directors and General Manager should be payout per rata.
    2. The ceiling of the personal bonus for Deputy General Manager is 85% the bonus for General Manager.
    3. All bonus are removed except the performance bonus for General Manager Huang Yaohsing.

The company's process for the opinion from Remuneration committee: Process according to the resolution of the Board meeting.
- II. If there is a discussed matter in the Remuneration Committee opposed by the members, or a matter the members hold qualified opinions on, which had record or statement in writing, the date and the number of times of the meeting, contents of the proposal, opinions of all members and the response to the opinions shall be stated: N/A

**(V) Performance of Social Responsibilities:**

Items assessed	Operation circumstances			Difference from code of practice on corporate social responsibility of listed companies or OTC companies and cause
	Yes	No	Abstracts	
I. Implementation of Company governance	V			No difference
(i) Does the Company prepare the policies or systems on corporate social responsibility and the way to evaluate the performance?			(i) The Company established the “Corporate Social Responsibility Promotion Committee” in 2015 and drew up 6 main corporate social responsibility strategies (detailed in the CSR report). We check the performance and review the implementation regularly, and also publish the CSR report regularly every year.	
(ii) Does the Company hold the training on the corporate social responsibility regularly?			(ii) The Company holds corporate social responsibility related education training courses of physical and mental healthcare (including potential development and healthcare promotion), and labor union subsidy.	
(iii) Does the Company set the full-time (part-time) unit to promote the corporate social responsibility, ask the high-level management team authorized by the board of directors to handle it and report the actual situation to the board of directors?			(iii) 1. The company established CSR secretary team under the Board of Directors Office, which is designated to plan and integrate CSR related public business promotion. 2. The Company established “Corporate Social Responsibility Promotion Committee” to be the highest promotion organization to foster CSR in the Company internally, reporting each CSR promoting project to the board of directors for approval. The Chairman serves as the steering committee member, the President as the commissioner, and the Vice President as the vice commissioner. The members of the committee include the Assistant Vice President, department directors, and factory directors. The Corporate Social Responsibility Promotion Committee reviews the operation steering and supervises the implementation of the Company and	

Items assessed	Operation circumstances			Difference from code of practice on corporate social responsibility of listed companies or OTC companies and cause
	Yes	No	Abstracts	
			each committee through regular meetings and related coped measures. And the committee reports the result and promoting implementation of corporate social responsibility project to the board of directors at least once a year.	
(iv) Does the Company prepare reasonable salary and welfare policies, combine the employee's performance appraisal system with the corporate social responsibility and set up the effective award & punishment system?			(iv) The Company drew up a reasonable and competitive salary remuneration policy. We link the employee performance evaluation system, such as performance bonus and project bonus, and the promotion of corporate social responsibility policy, such as energy conservation and carbon reduction, the management performance of the Company and human resource management and training, together.	
II. Development of sustainable development	V			No difference
(i) Does the Company endeavor to improve the utilization rate of all resources and use the renewable materials that exert less influence on the environment?			(i) The Company promotes the production value chain integrated policy. Establishing the most efficient production and energy operation model in Taichung plant (production base of chemical fertilizer). We not only optimize our employee skills but also complement features of individual factories. Arranging the reused energy to another factory for energy cycling, boosting the utilization efficiency of individual resources vastly. Taiwan Fertilizer Co., Ltd utilizes recycled material that has low impact on the environment to develop circular economy. For example, we boost the value of reusing discarded fish scales, extracting the fish scale collagen peptide powder which has 95% high purity and we utilize distillers' grains, sawdust and biogas residue as biotechnology organic fertilizer.	

Items assessed	Operation circumstances			Difference from code of practice on corporate social responsibility of listed companies or OTC companies and cause
	Yes	No	Abstracts	
(ii) Does the Company establish the proper environment management system based on the industrial features?			(ii) The Taichung and Miaoli plant of the Company have already established the ISO 14001 environment management system and they perform internal audit regularly to ensure the implementation.	
(iii) Does the Company pay attention to the influence of climate change on operation, execute the room temperature gas check and the policies on energy-saving, emission reduction and reduction of gas?			(iii) The Company has engraved realization that the climate change has great economic and environmental impact on the business operation, and therefore brings in the ISO 14064-1 greenhouse gas examining system. We perform greenhouse gas examination regularly every year, setting up the standard for reduction goal and propose strategy and improvement of energy conservation and carbon reduction and greenhouse gas decrease based on it.	
III. Maintenance of public welfare	V			
(i) Does the Company prepare the relevant management policies and procedures according to the relevant regulations and the international human rights conventions?			(i) The Company has prepared the Working Principle for the Working Staffs of Taiwan Fertilizer Co., Ltd. and the Measures on the Retirement, Care and Severance of the Working Staffs of Taiwan Fertilizer Co., Ltd. according to the spirit of international human rights conventions, labor standard law and the regulations on the retirement fees of the workers, and has published it on its internal website besides notifying all the employees via letter so that the employees can inquire it at all times.	
(ii) Does the Company establish a mechanism and channel for any employee's appeal, and deal with such appeal properly as well?			(ii) The Company has set up and improved its grievance mechanism and channel by holding labor relation symposium, and by establishing a labor union and an exclusive complaint mailbox for employees. Thus, employees can file complaints through these channels.	

Items assessed	Operation circumstances			Difference from code of practice on corporate social responsibility of listed companies or OTC companies and cause
	Yes	No	Abstracts	
(iii) Does the Company provide the employees with safe and healthy working environment and carry out regular safety and health education to them?			(iii) Taichung Plant and Miaoli Plant have been certified by OHSAS18001 and CNS1556 OHSMS. Moreover, the Company has developed health promotion plan and has held various health activities and education forums. All of this aims to provide a safe, healthy workplace for employees.	
(iv) Does the Company establish the regular communication mechanism and notify the employees of the operation changes that may exert significant influence through a reasonable way?			(iv) The Company holds labor and capital meetings in the head office and all plants according to labor standard law and discussions and communications at all plants according to the Company's Key Points for the Implementation of Labor and Capital Forum on a yearly basis. If the Company has major changes in operation, each employee can get a chance for fully communication through the above mechanism. Simultaneously, the Company does an importance assessment and holds an explanation session additionally to strengthen policy advocacy and employee communication.	
(v) Does the Company establish any effective training plans on the development of professional skills for its employees?			(v) We created effective development of career competence in the aspects of professional competence (marketing service, business English, and real property trend), management competence (situation leadership and training of subordinates, work implementation and improvement, teaching ability of the superintendent), core competence (management information, managerial economics, information security, QCC methods), mental and physical health of employees (development of potential, health improvement course), and labor education subsidies for the trade union.	
(vi) In order to protect the customers' rights and interests, does the Company prepare the relevant			(vi) As disclosed in Article 23 of our "Corporate Social Responsibility Best Practice Principles", we have established the policies on the rights and interests of	

Items assessed	Operation circumstances			Difference from code of practice on corporate social responsibility of listed companies or OTC companies and cause
	Yes	No	Abstracts	
<p>policies and appeal procedures in R&amp;D, purchasing, production, operation, and services?</p>			<p>consumers with respect to the R&amp;D, purchase, production, operation, and service processes. The implementation of these Principles is described below: 1. The “Detailed Regulations on Management of Customer Relationship” requires the Sales Department to set up a customer service center department and use it as a communication channel for customer service purposes. The sales unit has a complete “Customer Complaint Management Process” and a special customer service hotline so as to understand the circumstances, take actions immediately, and follow up and continuously make improvements. 2. Our “Production Management Guidelines” explicitly specifies the regulations on handling of customer complaints with respect to products, production, and business operation. 3. Our “Research and Development Management Instructions” explicitly specifies the methods for the R&amp;D unit to review and improve the research and development of products or services. Performance review is made regularly after the products are introduced to the market. Continuous improvement is made to the satisfaction of the customer.</p>	
<p>(vii) Does the Company abide by the relevant regulations and international criteria for the marketing and labeling of product and service?</p>			<p>(vii) As Article 24 of our “Corporate Social Responsibility Best Practice Principles” disclose, the marketing the homemade products and the service we provide shall be compliant with domestic regulations and international principles regarding their marketing and marking. The implementation status is described below: 1. The marking on the bags of our fertilizer products and promotion material are completely compliant with domestic fertilizer management laws and regulations. 2. The real property that we developed is</p>	

Items assessed	Operation circumstances			Difference from code of practice on corporate social responsibility of listed companies or OTC companies and cause
	Yes	No	Abstracts	
			designed, constructed, and managed pursuant to domestic building acts and regulations. Hence, the information on the marking and product with regard to the sale or leasing of the real property is completely disclosed to the consumers and not in violation of relevant regulations and international standards.	
(viii) Does the Company evaluate if the supplier has records that affect the environment and society before establishing a business relationship with the supplier?			(viii) The Company has revealed the principle of this article according to Article 25 of Code of Conduct on Corporate Social Responsibility. When entering an agreement with a supplier, the Company will collect the credit of the supplier preliminary, including their performance capacity, and if containing the unfavorable records such as pollution of the environment or raw materials. If such events are added in the commercial terms, the supplier should undertake the liabilities.	
(ix) Does the agreement entered by and between the Company and its main supplier contain the terms that the agreement will be terminated or rescinded as long as the supplier goes against the policies on the corporate social responsibility and exert great influence on the environment and society?			(ix) The agreement between the Company and the suppliers specifies the Company shall terminate the agreement whenever the suppliers have behaviors influencing the environment or society or violating government laws.	
IV. Strengthening of information disclosure	V			No difference
(i) Does the Company disclose the			(i) The Company discloses its critical and authentic	

Items assessed	Operation circumstances			Difference from code of practice on corporate social responsibility of listed companies or OTC companies and cause
	Yes	No	Abstracts	
critical and authentic information about the corporate social responsibility at its website and Observation Website for News Disclosure?			<p>information about the corporate social responsibility as follows :</p> <ol style="list-style-type: none"> <li>1. The Company finishes preparation and release of CSR report of last year by the end of every June, and exhibited the contents on the official website and the Observation Website for News Disclosure so that all the interested parties can inquire it.</li> <li>2. Special zone for the corporate social responsibility has been set in the Company's official website so that the relevant interested parties can inquire them.</li> <li>3. The regulations such as Code of Conduct on Corporate Social Responsibility, Code on the Governance of the Company and Integrity Operation Criteria are disclosed on the official website and the Observation Website for News Disclosure of the Company for the relevant interested parties to refer.</li> </ol>	
<p>V. If the Company has prepared the code of conduct on the corporate social responsibility according to the Code of Conduct on the Corporate Social Responsibility of Listed Companies and OTC Companies, please state the difference between the operation and the code prepared: The Company prepares <i>Code of Conduct on Corporate Social Responsibility</i> as the basis for fulfillment of corporate social responsibilities. The Company has constructed three CSR aspects including treatment, environment and society, shaped CSR policies, promoted plans and executed management guidelines. The Company also demonstrates and reports the annual CSR implementation situation to all interested parties by preparing and publishing CSR reports.</p>				
<p>VI. Critical information that helps understand the operation of corporate social responsibility:</p> <p>(i) Providing Taiwan Fertilizer Group with funds to improve the issues that people are concerned about to meet the expectations of the stakeholders and the international trends, and ensure mutual benefit to society and us. Major social activities are described below:</p> <ol style="list-style-type: none"> <li>1. We have been dedicated to promoting the education of rational fertilization with demonstrative farmlands for many years. We invested labor resources and funds every year and had outstanding outcomes. Statistically, a total of 3,000 contributors participated in the promotion activities over the past three (3) years to attract more than 33,000 farmers. The funds invested in the promotion amounted to NT\$ 10,106,323</li> </ol>				

Items assessed	Operation circumstances			Difference from code of practice on corporate social responsibility of listed companies or OTC companies and cause
	Yes	No	Abstracts	
			<p>and a total 935 workshops of rational fertilization were organized on demonstrative farmlands. As a result, the use of fertilizer in Taiwan was reduced by 12,171 tons/year, equivalent to a CO<sub>2</sub> emission of 291 Da'an Parks.</p> <p>2. Twelve (12) important partners from the industry, government, and academic field were gathered in 2017 and 5 development projects were completed in the same year. Eight (8) projects are in progress.</p> <p>3. The Taiwan Fertilizer Foundation sets up the "Scholarship of Friendly Agricultural Operation Project" in the hope to solve the aging problem of agricultural population in Taiwan. The project must integrate the "business administration" and "agribusiness management" and the activity attracts many postgraduates from the agriculture and business administration departments of different universities in Taiwan to submit their contributions enthusiastically, arouse the passion of young students for the operation and management of agribusinesses, encourage them to combine what they have learnt with the agriculture, and work together with Taiwan Fertilizer to create a new era for the agricultural industry in Taiwan.</p> <p>4. The Taiwan Fertilizer Group (including Taiwan Fertilizer Foundation) participated in donation activities for public welfare, promotion of art and culture, and encourage sports activities in 2017. In the aspect of care for the disadvantaged, the Foundation assists in buying adzuki beans of good quality from local farmers. As for encouragement of sports activities, the Foundation endows Chunan Elementary School, Taichung City, with funds to organize the 3<sup>rd</sup> "Chunan Cup" community baseball invitational tournament in 2017. The total expenses were amounted to NT\$ 2,601,360.</p>	
			(ii) The fulfillment of our corporate social responsibility is compiled in our annually published Corporate Social Responsibility Report. Stakeholders may download the report from the Market Observation Post System and our official website.	
			VII. Please make statement here if the Company's corporate social responsibility report has been certified by a relevant verification agency: The SGS, an independent and credible inspection company, was authorized by the Company to inspect and verify the content and data of its CSR report (2017) in accordance with AA1000AS2008 assurance standard released by AA organization. After inspection and verification, a Category I and medium level third party assurance was issued to the Company by SGS. All CSR reports published by the Company in future will be assured by a third party inspection and verification institution.	

**(VI) Conditions for performing good faith management and measurement by the Company**

Items assessed	Operation circumstances			Difference with the integrity operation criteria of listed companies and OTC companies and the cause
	Yes	No	Abstracts	
I. Conclusion of integrity operation policies and schemes	V			No difference
(i) Does the Company specify the policies and actions of integrity operation in the rules and external documents, and implement the commitment of operation policies by the board of directors and its management team actively?			(i) The Company specifies its policies and actions of integrity operation in the rules and external documents as follows: 1. We disclose our core value, ethics, in the company profile, three-year business management strategies, and our official website. We established the “Ethical Corporate Management Best Practice Principles” to create a corporate culture of ethical management, build a good risk control mechanism, and sturdily ensure sustainable management and development for the enterprise. 2. The Company prepares CSR report each year to explain its integrity operation commitment and execution performance.	
(ii) Does the Company conclude the action scheme against the non-integrity, define and implement the operation procedure, guide to action, punishment against violations and appeal system in the schemes?			(ii) Our “Ethical Corporate Management Best Practice Principles” is the highest guidelines and conduct rules for us, our subsidiaries, and the companies that we invest in and over which we have the actual control power to engage in operational activities. To ensure implement the Principles, we establish and announce the “Ethical Code of Conduct for Directors, Supervisors and Level-1 Superintendents or Higher”, “Work Rules for the Employees of Taiwan Fertilizer Co, Ltd.” and	

Items assessed	Operation circumstances			Difference with the integrity operation criteria of listed companies and OTC companies and the cause
	Yes	No	Abstracts	
			<p>“Employee Evaluation Regulations of Taiwan Fertilizer Co., Ltd.” and use them as guidelines to prevent unethical conduct. We also establish the “Whistleblowing and Handling Regulations for Internal and External Personnel” and specify the details on the whistleblowing method, investigation procedure, and whistleblower protection policy to implement the Principles thoroughly.</p>	
(iii) Does the Company take any preventive measures for the operation activities with high dishonesty level in the Article 7-2 of Integrity Operation Criteria of Listed Companies and OTC Companies or within other scope of business?			<p>(iii) The preventive measures taken by the Company against the operation activities with high non-integrity risks in the Article 7-2 of Integrity Operation Criteria of Listed Companies and OTC Companies and other scope of business are described as follows:</p> <ol style="list-style-type: none"> <li>1. The Company deems integrity and anti-corruption education and training as important, and arranges relevant trainings or meetings regularly each year, in order to publicize integrity operation principles to all employees and eradicate corruption events completely.</li> <li>2. Regarding credit and anti-corruption educational training as an important task, the Company regularly arranges related educational training or meetings every year, to communicate the credit management concept to all the colleagues and to completely eradicate corruption events.</li> </ol>	
II. Implementation of integrity operation	V			No difference

Items assessed	Operation circumstances			Difference with the integrity operation criteria of listed companies and OTC companies and the cause
	Yes	No	Abstracts	
(i) Does the Company evaluate the integrity records of the transaction object and conclude the terms regarding the integrity behavior in the agreement signed with them?			(i) Prior to the purchase, the Company evaluates the integrity records of the transaction object and specifies in the purchase agreement, trading agreement, etc. that the object shall, prior to the execution of the agreement or during the terms of this agreement, never give present to Party A's employee in any form. Should Party B go against the regulations, Party A can terminate this agreement immediately as long as it is discovered and cancels Party B's rights of trading with Party A or contracting Party A's projects.	
(ii) Does the Company set up the full-time (part-time) unit under the board of directors and in charge of promoting the enterprise integrity operation and report the execution to the board of directors regularly?			(ii) The Company's board office is responsible to push forward the enterprise's credit management policy and related enforcement and regularly report the enforcement circumstances to Board of Directors.	
(iii) Does the Company prepare the policies against interest conflict and provide and implement the proper statement channel?			(iii) According to the Integrity Operation Criteria of Listed Companies and OTC Companies, and the Code of Moral Conduct of Directors, Supervisors and Personnel Above Level 1 Managers of the Company, the directors, supervisors and management team members above Level 1 shall avoid involving in the interest conflict with the personal interests or the integral interests of the Company. In case of involving in the actions above, the personnel shall report to the inspectors, managers, executive of internal audit or	

Items assessed	Operation circumstances			Difference with the integrity operation criteria of listed companies and OTC companies and the cause
	Yes	No	Abstracts	
			other proper personnel so that it can be handled in a confidential manner.	
(iv) Does the Company establish effective accounting system and internal control system for the integrity operation and carry out regular audit by the internal audit unit or by the appointed CAPs?			(iv) The Company shall establish its accounting system according to laws and the internal control system, and according to the treatment criteria of internal control system. The audit office shall prepare the annual audit plan for check, and the internal audit shall be reported in written at each board meeting.	
(v) Does the Company hold regular internal and external education trainings on integrity operation regularly?			(v) We organize educational training of ethical corporate management on a regular basis. For this, we invited Professor Chen Yuen-Bao and Group Leader Lin Zhi-Mei of the Humanities and Social Improvement Foundation to give lectures on the ethical corporate management and anti-corruption on Dec. 29, 2017. A total of 96 employees participated in the lectures.	
III. Operation of the Company's whistle-blowing system	V			No difference
(i) Does the Company prepare the specific whistle-blowing and award & punishment system, establish the convenient whistle-blowing channel and designate a person to deal with the accused?			(i) We establish the "Whistleblowing and Handling Regulations for Internal and External Personnel" and set the following website address: <a href="https://goo.gl/kuKpF5">https://goo.gl/kuKpF5</a> . We also create and easy whistleblowing channel. Whistleblowers may report the violation by sending a letter or an email to the specified address or email address. The Audit Office is designated as the responsible unit for whistleblowing. Appropriate rewards will be granted	

Items assessed	Operation circumstances			Difference with the integrity operation criteria of listed companies and OTC companies and the cause
	Yes	No	Abstracts	
			to the whistleblower or the personnel who have rendered meritorious services according to Article 10 (Rewarding) of the “Whistleblowing and Handling Regulations for Internal and External Personnel”.	
(ii) Does the Company conclude the operation procedures for the investigation of the whistle-blowing event and the relevant confidentiality mechanism?			(ii) We establish the standard operation procedure for investigation of reported violations. Article 6 of the “Whistleblowing and Handling Regulations for Internal and External Personnel” provides for detailed investigation procedures and confidential requirements.	
(iii) Does the Company take measures for protecting the whistle-blower from being punished improperly?			(iii) The whistleblower protection policy is specified in Article 9 of the “Whistleblowing and Handling Regulations for Internal and External Personnel”. It protects the whistleblower from any inappropriate treatment due to whistleblowing.	
IV. Strengthening of information disclosure (i) Does the Company specify the contents of Ethical Corporate Management Best Practice Principles for Taiwan Fertilizer Co., Ltd. and the promotion effect on the website as well as the Observation Website for News Disclosure?	V		Yes. We disclose relevant regulations of our “Ethical Corporate Management Best Practice Principles” as well as the dissemination information and promotion result on our official website. We also disclose our “Ethical Corporate Management Best Practice Principles” and “Ethical Code of Conduct for Directors, Supervisors and Level-1 Superintendents or Higher” in the MOPS. The promotion results of the ethical corporate management are recorded in our annual corporate social responsibility report.	No difference
V. If the Company concludes the Ethical Corporate Management Best Practice Principles according to the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”, please state the difference of the operation with the criteria concluded:				

Items assessed	Operation circumstances			Difference with the integrity operation criteria of listed companies and OTC companies and the cause
	Yes	No	Abstracts	
<p>The Company prepared Ethical Corporate Management Best Practice Principles as the basis to put integrity operation into practice. Prior to these principles, the Company still abided by the spirit of integrity operation in promoting all of its businesses. The Company will implement the integrity operation in terms of operation and corporate governance by abiding by the items stated herein in order to realize sustainable development.</p>				
<p>VI. Other critical information that helps understand the operation of the Company's integrity operation: The operation situation and effectiveness of integrity management of the Company are recorded in the annual CSR report issued each year, available for public reference.</p>				

**(VII) Disclosure of Inquiry Ways in Case of any Formulation of Corporate Governance Rules and Relevant Regulations by the Company:**

1. For TFC Integrity Operation Criteria, please visit the official website at:  
<http://www.taifer.com.tw/taifer/tw/2014-09-01-01-37-40/2014-12-25-02-49-45.html>
2. For more information about the “Ethical Corporate Management Best Practice Principles of Taiwan Fertilizer Co., Ltd.”, please visit our official website:  
[http://www.taifer.com.tw/taifer/tw/2014-09-01-01-37-40/2014-12-25-02-49-45.html?download=453:8company\\_regulations](http://www.taifer.com.tw/taifer/tw/2014-09-01-01-37-40/2014-12-25-02-49-45.html?download=453:8company_regulations)

**(VIII) Other Important Information Enough to Enhance the Understanding of the Operation of Corporate Governance**

1. We set up the 2<sup>nd</sup> Remuneration Committee on September 25, 2012. The members of the Committee were Hsu Mingsai, Wang Richun and You Zhongzhe with a term of office till June 30, 2015. The member of the 3<sup>rd</sup> Remuneration Committee are Xu Ming-Cai, Wang Ming-Ting, and Wang Ri-Chun with a term of office from July 01, 2015 to June 30, 2018.
2. The “Procedures for Handling Material Inside Information of TFC” were approved by the 31st meeting of 30th BOD session on May 26, 2009. Please visit the official website of TFC.
3. The TFC Ethical Corporate Management Best Practice Principles were approved by the 13th meeting of 33rd BOD session on August 23, 2016. Please visit the official website of TFC.
4. The TFC Integrity Operation Criteria was approved by the 16st meeting of 33rd BOD session on November 29, 2016. Please visit the official website of TFC.
5. We approved the “Ethical Code of Conduct for Directors, Supervisors and Level-1 Superintendents or Higher of Taiwan Fertilizer Co., Ltd.” at the 24<sup>th</sup> meeting of the 33<sup>rd</sup> board of directors on July 25, 2017. Please visit the official website of TFC.
6. We approved the amendment of the “Ethical Corporate Management Best Practice Principles of Taiwan Fertilizer Co., Ltd.” at the 31<sup>st</sup> meeting of the 33<sup>rd</sup> board of directors on March 29, 2018. For the provisions of the Principles, please visit our official website.
7. Please visit our official website for the CSR reports from 2014 to 2016.
8. An audit committee will be set up at the meeting of the 34<sup>th</sup> board of directors in 2018. Three independent directors will be the member of the committee.

**(IX) Status of the Execution of the Internal Control System**

## 1. Company to the Public Declaration for Internal Control System

Showing the effectiveness in design and implementation

(The part following rules and regulations in the Declaration is applicable when all of the rules and regulations are adopted)

Taiwan Fertilizer Co., Ltd.  
Public Declaration for Internal Control System

Date : March 29, 2018

With respect to the internal control system for 2017, based on the self inspection result, we hereby represent as follows:

- I The Company acknowledges that it is the responsibility of the Board of Directors and the managers of the Company to establish implement and maintain the internal control system, and the Company has established the system for the purpose of providing reasonable assurance of the achievement of such targets as the operating result and efficiency (including profits, performance and safeguarding assets safety, etc.), the financial report reliability and the compliance with relevant statues.
- II The internal control system has its congenital limitation; notwithstanding a perfect design, the effective internal control system can only provide reasonable assurance of the achievement of the above three targets; furthermore, the internal control system effectiveness may vary according to the change of the environment and conditions, provided that internal control system of this Company is equipped with the self supervision mechanism and the Company can take any corrective action in case of any deficiency identified.
- III The Company shall judge the design of the internal control system and the effectiveness of the implementation thereof based on the judgment items of the effectiveness of the internal control system as provided in the Regulations Governing the Establishment of internal Control Systems by Public Companies (hereinafter referred to as "the Regulations"). The internal control system judgment adopted in the Regulations refers to the management based control process and divides the internal control system into five elements: 1. control environment; 2. risk evaluation; 3. Control job; 4. information and communication; and 5. supervision. Each element contains a number of items. For the above items, refer to the Regulations.
- IV The Company has adopted the above-mentioned internal control system judgment items to examine the design of the internal control system and the effectiveness of the implementation thereof.
- V Based on the preceding examination result, the Company deems that, the internal control system of the Company on December 31, 2017 (including the supervision and management of its subsidiary), including knowing about the operating result and the achievement of the efficiency and targets, financial whistle-blowing reliability and the design of and the implementation effectiveness of the internal control system regarding the compliance with relevant statues, is effective, and it can reasonably ensure the achievement of the above targets.
- VI This Declaration shall be the main content of the annual report and prospectus of the Company and be disclosed to the public. In case of any false or hidden illegal matters, the above content disclosed shall involve the legal responsibilities in Article 20, Article 32, Article 171 and Article 174 in the Securities Exchange Act.
- VII. We state herein that the Statement was approved by the board of directors on March 29, 2018. None of the 7 directors present at the meeting expressed any objection, and all of them agreed on the contents of the Statement.

Taiwan Fertilizer Co., Ltd

Chairman: Kang Hsinhong



President: Huang Yaohsing



2. If a CPA is appointed to review the internal control system, the CPA's audit report shall be disclosed: N/A

**(X) Punishment to the Company and its Personnel by Law and Punishment to its Personnel in Breach of Internal Control Systems by the Company as well as Major Shortcomings and Improvements over the Recent Years and up to the Date of Publication of Annual Reports: N/A**

**(XI) Important resolutions at the shareholders' and board of directors meetings in the most recent year and as of the date on which the annual report was printed (March 31, 2018)**

1. General meeting of shareholders in 2017 (June 14, 2017)

No.	Contents	Result of execution
1	The financial statements and recognition of final statements of the Company in 2016 were approved. No shareholders proposed disagreement after the inquiry of the chairman.	All shareholders have been mailed for inquiry
2	The proposal for distribution of FY2016 profits was approved. No shareholders proposed disagreement after the inquiry of the chairman.	1. All shareholders have been mailed. Dividends to shareholders, salary to directors and supervisors, and bonus to employees will be on the basis of it. 2. It was approved in the 24 <sup>th</sup> Board Meeting of the 33 <sup>rd</sup> Board of Directors that the Company distributed cash dividends of NT\$ 2.1 per share to shareholders in June 25, 2017. It was proposed that August 23, 2017 was the base day of dividend distribution.
3	Amendment of TFC's Articles of Association was approved. No shareholders proposed disagreement after the inquiry of the chairman.	Registration was approved by the MOEA on July 7, 2017, and announced on our website.
4	Amendment of TFC's Operation Procedure of Capital Loan and the Endorsement Guarantee was approved. No shareholders proposed disagreement after the inquiry of the chairman.	Announcement has been made on the website and the matters have been dealt with according to the amended regulations.
5	Amendment of TFC's Asset Acquisition or Disposal Procedures was approved. No shareholders proposed disagreement after the inquiry of the chairman.	Announcement has been made on the website and the matters have been dealt with according to the amended regulations.

2. Important solutions at the board of directors meeting

mm/yy	Contents
Jan. 2017	1. It was approved to revise some provisions of TFC's <i>Accountant Firm Open Selection Methods</i> . 2. It was approved that TFC held CPA firm selection according to <i>Accountant Firm Open Selection Methods</i> to audit the annual financial statements of 2017 and 2018. 3. It was approved to pay the year-end bonus of 2016 to TFC's employees. 4. It was approved to pay the year-end bonus and operating performance bonus of 2016 to TFC's vice-president and higher-level personnel.

mm/yy	Contents
Feb. 2017	<ol style="list-style-type: none"> <li>1. It was approved to revise the auditing and certification provisions about TFC's financial reports and profit-seeking business income tax declaration of 2017, as well as the undistributed profit declaration of 2016. KPMG will be authorized for such auditing and certification, and TFC's authorized management department will enter a service contract with KPMG.</li> <li>2. It was approved that Huang Yongda, TFC former head of safety &amp; health division, would be vice-president of Al-Jubail Fertilizer Company. This relocation came into effect on May 1, 2017.</li> </ol>
Mar. 2017	<ol style="list-style-type: none"> <li>1. It was approved the statement of the internal control system of the Company in 2016.</li> <li>2. Passed TFC's individual financial statement, consolidated financial statement, and affiliated enterprise's consolidated financial statement of 2016.</li> <li>3. Passed TFC's business report of 2016.</li> <li>4. Passed the compensation of TFC's director, supervisor, and employee of 2016.</li> <li>5. Passed TFC's profit &amp; loss appropriation and earning distribution of 2016.</li> <li>6. It was approved to revise some provisions of TFC's <i>Asset Acquisition or Disposal Procedures</i>.</li> <li>7. It was approved to revise some provisions of TFC's <i>Articles of Association</i>.</li> <li>8. It was approved that a shareholder with more than 1% of stocks has the right for proposals.</li> <li>9. It was approved that the Company would hold the regular meeting of shareholders in 2017 at the Armed Forces Cultural Center (No. 69, Section I, Zhonghua Road, Taipei City) on June 14, 2017.</li> <li>10. It was approved to revise TFC's <i>Internal Control System of Stock Affairs Organization</i>.</li> <li>11. It was approved to revise <i>Director and Supervisor Electing Methods of Taiwan Fertilizer Co., Ltd.</i></li> <li>12. It was approved to insure directors, supervisors, and managers against liability at Chung Kuo Insurance Company, Limited.</li> <li>13. Passed investment plan of <i>Sailing Participating in Joint Venture Company</i>.</li> </ol>
Apr. 2017	<ol style="list-style-type: none"> <li>1. A lot of land in the Shalu District, Taichung City, was purchased. It will be used as a dormitory for the employees of the Taichung Plant</li> <li>2. Promotion of Huang Mei-Lin from the position of auditor general to the head of the Financial Department was approved.</li> <li>3. Promotion of Zhong Jun-Ming from the Development Section of the Business Development Department to the position of auditor general was approved.</li> </ol>
May 2017	<ol style="list-style-type: none"> <li>1. The first supplementary arrangement for the cooperation and planning agreement to be entered with the Grand Hi Lai Hotel, Inc. with respect to our Nangang C2 Project was approved.</li> </ol>
Jul. 2017	<ol style="list-style-type: none"> <li>1. The 2016 distribution of cash dividends to the amount of NT\$ 2.1 per share was approved.</li> <li>2. The decision of the Taiwan Yes Deep Ocean Water Co., Ltd., one of our subsidiaries, to dissolve the Liquidator of Hasbo Biotechnology Co. Ltd. and exempt it from its debts was approved.</li> <li>3. The establishment of the "Whistleblowing and Handling Regulations for Internal and External Personnel of Taiwan Fertilizer Co., Ltd." was approved</li> </ol>

mm/yy	Contents
Aug. 2017	1. "Rules of Procedure for Board of directors' Meetings of Taiwan Fertilizer Co., Ltd" was approved.
Sept. 2017	1. The amendment of the year-end bonus distribution regulation of the Company was approved.
Oct. 2017	1. The C4 land development case in Nangang of the Company was approved. 2. The Kaohsiung plant of the Company business recess registration was approved.
Nov. 2017	1. The 2018 audit operation plan of the Company was approved. 2. The matter that the Company appointed KPMG again for the audit of the 2018 annual financial report and the income tax return was approved. 3. The matter that the subsidiary, Taiwan Yes Co., Ltd, of the Company performed capital deduction loss was approved.
Dec. 2017	1. The 2018 business profit goal of the Company was approved. 2. The 2018 business plan and budget of the Company were approved.
Mar. 2018	1. The declaration on the internal control system was approved. 2. The 2017 individual financial report, consolidated financial report and consolidated financial report of the affiliated business were approved. 3. The 2017 annual business report was approved. 4. The 2017 remuneration distribution for the directors, supervisors and employees was approved. 5. The 2017 profit distribution was approved. 6. The 2017 cash distribution of legal reserve was approved 7. The proposal right of the shareholder possessing more than 1% of the shares and related business were approved. 8. The director candidate's (including independent director) nomination period, the number of the director that shall be elected, the addendum of the nominated shareholder and accepting location were approved. 9. The matter that the Company plans to convene the shareholders' meeting in the Armed Forces officer's Club (No. 142, Yanping East Road, Zhongheng District, Taipei City) at 9 a.m. on June 29, 2018 (Fri.) was approved. 10. "Rules of Procedure for Shareholders' Meetings of Taiwan Fertilizer Co., Ltd" was approved. 11. The amendment of the "Procedures for Ethical Management" of the Company was approved. 12. The amendment of the "Codes of Ethical Conducts for the Directors and Managers above level 1" was approved. 13. The election of the 34 <sup>th</sup> board of directors (including independent directors) was approved. 14. The insurance matter regarding the directors and officers liability insurance from Chung Kuo Insurance was approved. 15. The 2017 remuneration distribution for the directors, supervisors and employees was approved. 16. The R13-1 land development case in Nangang of the Company was approved.

**(XII) Major Contents of Different Opinions of Directors or Supervisors on Important Resolutions with Records or Written Statements as Adopted by the Board of Directors over the Recent Years and up to the Date of the Publication of Annual Reports: N/A**

**(XIII) Summary of conditions for resignation and dismissal of the chairman, President, accounting supervisors, financial supervisors, internal audit supervisors and research and development supervisors of the Company for the recent years and up to the date of publication of the annual report:**

Title	Name	Date of Resignation(Dismisal)
Director of the Financial Department	Jian Zhaoren	April 30, 2017
Auditor General	Huang Meiling	April 30, 2017

## V. Information on CPA Professional Fees

### (I) Information of Professional Fees to CPA By Fee Range

Name of CAP firm	Name of CPA		Duration of audit	Remarks
KPMG	Zeng Guoyang	Lin Hengshen	Jan 1, 2017 to Dec 31, 2017	

Unit: NT\$K

Range of amount		Fee category	Audit fee	Non-audit fee	Total
1	Below NT\$2,000,000				
2	NT\$2,000,000 (inclusive) ~ NT\$4,000,000			2,125	
3	NT\$4,000,000 (inclusive) ~ NT\$6,000,000		4,496		
4	NT\$6,000,000 (inclusive) ~ NT\$8,000,000				6,621
5	NT\$8,000,000 (inclusive) ~ NT\$10,000,000				
6	Above NT\$10,000,000 (inclusive)				

- (II) When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are one quarter or more of the audit fees paid thereto, the amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed:**

## CPA expense information

Unit: NT\$K

Name of The Accounting Firm	Name of the CPA	Audit Fee	Non Audit Fee					CPA Auditing Period
			System Design	Business Registration	Human Resources	Others	Subtotal	
Deloitte Taiwan	Wang Yiwen	2,156	-	116	-	472 (Note 1)	588	-
	Guo Wenji							
KPMG	Zeng Guoyang	2,280	-	-	-	170	170	-
	Lin Hengshen							
Baker Tilly Clock & CO	-	60	-	-	-	220 (Note 2)	220	-
BDO Taiwan	-	-	-	-	-	1,147 (Note 3)	1,147	-

Note 1: The Kingdom of Saudi Arabia consulting service fee is NT\$ 252,000, the dismissal project report of Xuchang in Kunshen is NT\$ 113,000, and other non audit service expense is NT\$ 107,000.

Note 2: Assessment of profit-seeking enterprise income tax on non-arm's-length transfer pricing service fee was NT\$ 220,000 in 2016.

Note 3: The variance report of Al-Jubail Fertilizer and SOCPA cost NT\$ 1,087,000 and the 2016 Kingdom of Saudi Arabia tax certificate cost NT\$ 60,000.

- (III) When the company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amounts of the audit fees before and after the change and the reasons shall be disclosed: N/A**
- (IV) When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed: N/A**

**VI. Information on replacement of certified public accountant:****(I) Regarding the former certified public accountant:**

Date of Replacement	Feb 17, 2017		
Reason	To meet the business development and operation planning.		
Whether it was the certified public accountant that voluntarily ended the engagement or declined further engagement	Party	CPA	Company
	Conditions		
	Voluntarily ended the engagement		✓
Declined further engagement			
If the former certified public accountant issued an audit report expressing other than an unqualified opinion during the 2 most recent years, furnish the opinion and reason.	None.		
Any disagreement between the Company and the former certified public accountant	Yes		Accounting principle or practice
			Financial report disclosure
			Auditing scope or procedure
			Other
	None		✓
	Reason : None		
Other matters shall be disclosed (Matters as specified in the Point 4, Item 1, Paragraph 5, Article 10 of this code should be disclosed.)	None		

**(II) Regarding the successor certified public accountant:**

Name of CPAs firm	KPMG
Name of CPA	Zeng Kuoyang, CPA Lin Hengsheng, CPA
Date of engagement	March 3, 2017
Prior to the formal engagement of the successor certified public accountant, the Company consulted the newly engaged accountant regarding the accounting treatment of or application of accounting principles to a specified transaction, or the type of audit opinion that might be rendered on the Company's financial report, the company shall state and identify the subjects discussed during those consultations and the consultation results.	None
The Company shall consult and obtain written views from the successor certified public accountant regarding the matters on which the company did not agree with the former certified public accountant, and shall make disclosure thereof.	None

**(III) The reply from the former CPA to Article 10, Subparagraph 5, Items 1 and 2-3 of the Procedure: None**

**VII. Where the company's chairperson, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: N/A**

**VIII. Any transfer of equity interests and/or pledge of or change in equity interests (during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report) by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent during the most recent fiscal year or during the current fiscal year up to the date of printing of the annual report.**

**(I) Information on transfer of shares:**

Title	Name	2017		As of May 1, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	COA	-	-	-	-
	Representative: Kang Hsinhong	-	-	-	-
Director	COA	-	-	-	-
	Representative: Chen Chichung	-	-	-	-
Director	COA	-	-	-	-
	Representative: HUANG Hsuhong	-	-	-	-
Director	COA	-	-	-	-
	Representative: Li Chaofeng	-	-	-	-
Director	COA	-	-	-	-
	Representative: Hsu Shengming	-	-	-	-
Director	Tsai Changhai	-	-	-	-
Director	Hsu Chinlien	-	-	-	-
Independent Director	Hsu Mingsai	-	-	-	-
Independent Director	Shen Huiya	-	-	-	-
Supervisor	Chunghwa Post Co., Ltd.	(1,071,000)	-	(680,000)	-
	Representative: Lin Chihlung	-	-	-	-
Supervisor	Chen Chailai	-	-	-	-
Supervisor	Tsai Linglan	-	-	-	-
President	Huang Yaohsing	-	-	-	-
Vice President	Lo Shihjih	-	-	-	-

Title	Name	2017		As of May 1, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President	Chang Changlang	-	-	-	-
Financial Director	Huang Meiling	-	-	-	-

**(II) Information on pledge of equity interests:**

The counterparty in any such transfer or pledge of equity interests is a related party:  
None

**IX. Relationship information, if among the company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another**

Name	Shareholding		Spouse & minor shareholding		Shareholding by nominee arrangement		Relationship information, if among the company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another as stated in No. 6 of SFAS		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relations	
Council of Agriculture, Executive Yuan	235,886,376	24.07	-	-	-	-	None	None	
Representatives: Kang Hsinhong	0	-	-	-	-	-	None	None	
Chen Chichung	0	-	-	-	-	-	None	None	
Huang Hsuhong	0	-	-	-	-	-	None	None	
Li Chaofeng	0	-	-	-	-	-	None	None	
Hsu Shengming	0	-	-	-	-	-	None	None	
Nan Shan Life Insurance Company Ltd.	38,866,000	3.97	-	-	-	-	None	None	
Representatives: Du Yingzong	0	-	-	-	-	-	None	None	
Chung Hwa Post Co., Ltd.	34,378,000	3.51	-	-	-	-	None	None	
Representative: Lin Zhi-Long	0	-	-	-	-	-	None	None	
Taiwan Bank Custody Ma Shi Investment Fund Company Investment Account	27,194,000	2.77	-	-	-	-	None	None	
China Life Insurance Company	23,497,000	2.40	-	-	-	-	None	None	
Representatives: Wang Mingyang	0	-	-	-	-	-	None	None	
Mercuries Life Insurance Co., Ltd.	20,266,000	2.07	-	-	-	-	None	None	
Representatives: Chen Xiangjie	0	-	-	-	-	-	None	None	
Chase Hosts Vanguard Group Emerging Market Fund Investment Account	13,064,086	1.33	-	-	-	-	None	None	
Taiwan Life Insurance Co., Ltd.	11,957,000	1.22	-	-	-	-	None	None	
Representatives: Huang Siguo	0	-	-	-	-	-	None	None	
Chase Hosting Advanced Starlight Advanced International Stock Index	10,952,166	1.12	-	-	-	-	None	None	

Investment account of the Central Bank of Norway managed by bank	10,779,000	1.10	-	-	-	-	None	None	
--	------------	------	---	---	---	---	------	------	--

**X. Percentage number of shares and consolidate percentage of the company, directors, supervisor, managers and the businesses that are controlled by the company directly or indirectly on the invested company**

Dec 31, 2017

Unit: Share (dollar); %

Reinvested entities (Note)	Investment by the Company		Investments by directors, supervisors, managerial officers and directly or indirectly controlled enterprises		Total investment	
	Shares	%	Shares	%	Shares	%
Taiwan Yes Deep Ocean Water Co., Ltd.	25,763,200	100.00	0.00	0.00	25,763,200	100.00
Taichuang Assets Management and Development Co., Ltd.	5,500,000	100.00	0.00	0.00	5,500,000	100.00
TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD.	0	0.00	1,414,989	100.00	1,414,989	100.00
TAIFER CHEMICAL INTERNATIONAL CO., LTD.	0	0.00	USD 1,333,494	100.00	USD 1,333,494	100.00
PEIFENG TECHNOLOGY CO., LTD.	40,000,000	100.00	0.00	0.00	40,000,000	100.00
TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	10,965	100.00	0.00	0.00	10,965	100.00
TR ELECTRONIC CHEMICAL CO., LTD.	0.00	0.00	10,965,000	51.00	10,965,000	51.00
TR Electronic Chemical (Kunshan) Ltd.	0.00	0.00	USD 10,965,000	51.00	USD 10,965,000	51.00
TAIFER INTERNATIONAL (SAMOA) CO., LTD.	300	100.00	0.00	0.00	300	100.00
Taifer Biotech (Xiamen) Import & Export Co., Ltd.	0.00	0.00	No capital injection	100.00	No capital injection	100.00
TAIFER (CAMBODIA) CO., LTD.	1,000	100.00	0.00	0.00	1,000	100.00
Al-Jubail Fertilizer Company	6,715	50.00	0.00	0.00	6,715	50.00
TAIWAN AGRICULTURE DEVELOPMENT CO., LTD (originally as TAIWAN INTERNATIONAL AGRICULTURE DEVELOPMENT CO., LTD)	8,000,000	33.33	0.00	0.00	8,000,000	33.33
Bion Tech Inc.	4,167,000	15.16	0.00	0.00	4,167,000	15.16
TaiAn Technologies Corp.	741,351	16.67	0.00	0.00	741,351	16.67
Visgeneer Inc.	3,147,086	10.31	0.00	0.00	3,147,086	10.31
Phalanx Biotech	403,826	0.76	0.00	0.00	403,826	0.76
Ting Tang Energy Technology Co., Ltd.	1,500,000	6.71	0.00	0.00	1,500,000	6.71
Taiwan Stock Exchange Corporation	13,872,225	2.00	0.00	0.00	13,872,225	2.00
China Petrochemical Development Corporation	9,202,205	0.36	0.00	0.00	9,202,205	0.36

Chi Hang Joint Venture Co., Ltd.	6,000,000	10.00	0.00	0.00	60,000,000	10.00
Chi Hang 2 Joint Venture Co., Ltd.	20,000,000	18.50	0.00	0.00	20,000,000	18.50
QIHANG CO., LTD	15,000,000	16.56	0.00	0.00	15,000,000	16.56
Sheng Yuan Joint Venture Co., Ltd.	3,360,000	19.75	0.00	0.00	3,360,000	19.75
Fu Ding Joint Venture Co., Ltd.	1,951,219	9.76	0.00	0.00	1,951,219	9.76

Note: The long-term investment of the Company

## Chapter Four: Capital Overview

### I. Capital and Shares

#### (I) Source of Capital Stock

Date	Issue price	Authorized capital		Paid-in capital		Remark		
		Shares (K)	Amount (NT\$K)	Shares (K)	Amount (NT\$K)	Source of capital	Property other than cash is paid by subscribers	Others
August 2000	NT\$10	980,000	9,800,000	980,000	9,800,000	NT\$2.8 billion capital reserves converted to increase capital (Note)	None	None

Note: Refer to the Letter of Authorization (2000) Tai-Tsai-Zheng (1) 60387 by Securities & Futures Institute on July 12, 2000.

Shareholding Category	Authorized capital			Remark
	Issued shares (K shares)	Issued shares (K shares)	Issued shares (K shares)	
Common stock	980,000	0	980,000	Listed stocks

Information for shelf registration: N/A

#### (II) Structure of Shareholders

May 1, 2018

Structure Amount	Government bodies	Financial institutions	Other juridical persons	Individuals	Foreign institutions & foreigners	Total
Members	5	21	178	76,302	297	76,803
Shares held	261,835,490	147,147,106	25,383,449	388,389,449	157,244,506	980,000,000
Percentage (%)	26.72%	15.02%	2.59%	39.62%	16.05%	100%

**(III) Shareholding Distribution Status**

## 1. Common stocks

May 1, 2018

Range of shares held	Number of shareholders	Shares held	Percentage (%)
1 - 999	21,819	1,095,022	0.11
1,000 - 5,000	41,458	89,503,094	9.13
5,001 - 10,000	6,836	56,253,860	5.74
10,001 - 15,000	1,963	25,675,605	2.62
15,001 - 20,000	1,512	28,521,379	2.91
20,001 - 30,000	1,175	30,877,129	3.15
30,001 - 50,000	931	38,240,315	3.90
50,001 - 100,000	608	44,402,059	4.53
100,001 - 200,000	265	37,929,531	3.87
200,001 - 400,000	125	34,069,355	3.48
400,001 - 600,000	32	15,750,871	1.61
600,001 - 800,000	17	11,736,425	1.20
800,001 - 1,000,000	5	4,282,000	0.44
Above 1,000,001	57	561,663,355	57.31
Total	76,803	980,000,000	100.00

2. Preferred stocks: None.

**(IV) List of Major Shareholders**

May 1, 2018

Major Shareholders	Shareholding	Shares held	Percentage (%)
COA of Executive Yuan		235,886,376	24.07
Nan Shan Life Insurance Co., Ltd.		38,866,000	3.97
Chung Hwa Post Co., Ltd.		34,378,000	3.51
Investment account of Ma Shi Investment Fund Co., Ltd. managed by Bank of Taiwan		27,194,000	2.77
China Life Insurance Company Limited		23,497,000	2.40
Mercuries Life Insurance Co., Ltd.		20,266,000	2.07
Investment account of Vanguard Emerging Market Fund managed by J. P. Morgan Chase Bank		13,064,086	1.33
Taiwan Life Insurance Co., Ltd.		11,957,000	1.22
PGIA International Stock Total Index managed by J. P. Morgan Chase		10,952,166	1.12
Citibank investment account managed by Norges Bank		10,779,000	1.10

**(V) Market Price, Net Value, Earnings, Dividends Per Share of the Latest Two Fiscal Years, and Related Information**

Items		Year	2017	2016	As of March 31, 2017 (Note 5)
		Market price per share (Note 1)	Max.		NT\$ 43.9
Min.			NT\$ 37.45	NT\$ 39.8	NT\$ 37.65
Average			NT\$ 39.97	NT\$ 43.50	NT\$ 39.43
Net value per share	Before distribution		NT\$ 50.09	NT\$ 51.64	NT\$ 51.32
	After distribution		Not distributed	NT\$ 49.54	Not distributed
Earnings per share	Weighted average shares (1K)		980,000	980,000	980,000
	Earnings per share		NT\$ 1.65	NT\$ -0.13	NT\$ 0.43
Dividends per share	Cash dividend		Not distributed	NT\$ 2.1	Not distributed
	Free placement	Stock Dividend from Retained Earnings	—	—	—
		Stock Dividend from Capital Reserve	—	—	—
	Accumulated undistributed dividends		—	—	—
Return on investment	Price-earnings ratio (Note 2)		24.49	-330.92	—
	Price-dividend ratio (Note 3)		—	20.49	—
	Cash dividend yield rate (%) (Note 4)		—	4.88	—

Note 1: The highest and the lowest market value per share. The average market value was annually calculated according to the stock index and the turnover.

Note 2: Price-earnings (P/E) ratio = Average closing price per share that year/ Earnings per share.

Note 3: Price-dividend (P/D) ratio = Average closing price per share / Cash dividends per share.

Note 4: Cash dividend yield rate = Cash dividend per share / Average closing price per share that year.

Note 5: Market price per share in 2018 is the information up to March 31st, 2018, and net value per share and earnings per share are information on consolidated financial statements for the first quarter audited by certified public accountants.

Note 6: The net value per share and earnings per share for the year 2016 and 2017 are attested by independent auditors.

**(VI) Dividend Policy and Implementation**

## 1. TFC's Dividend Policy

(1) The Dividend Policy is set forth in TFC's Articles of Incorporation:

Articles 27-3 and 27-4:

Any earning after final accounting by this Company each year shall be made good for deficit for previous years after payment of taxes by law, and if there are still earnings, there shall be provision for 10% of statutory surplus reserve, and there shall also be provision for or transfer of special surplus reserve by law, and then the balance and total retained earnings for the previous year shall serve as the distributable earnings, but they shall be retained by discretion as business requires or there shall be provision for special surplus reserve by discretion before they will be distributed at the percentage below. For the foregoing matters, the Board of Directors shall provide the proposal for surplus distribution on a yearly basis, and present the same to the executive meeting of shareholders for resolution.

The shareholders' dividends of TFC shall refer to diversified operation of business and characteristics of changes in economic boom with consideration taken to the demand of life cycles of products or services on future funds as well as business development and shareholders' equity. For the payment of shareholders' dividends, except substantial investment plans, significant changes in financial standing, substantial changes in operation and productivity expansion or other substantial capital expenditure and other capital demands for that year, the cash dividend distribution ratio shall be on the whole not be lower than 10% of the total dividends for that year, and shall be submitted to the meeting of shareholders for consent before the same is handled.

(2) The distribution of bonus for TFC's shareholders will be based on the following factors; that is, TFC's financial condition in future, and the need for a stable dividend condition as well as for the transformation of the Company. In principle, at least 50% of earnings can be distributed after statutory surplus reserve and special surplus reserve by law are deducted.

2. Dividend distribution to be proposed at this meeting of shareholders:

According to the motion for allocation of earnings from 2017 proposed by the Board of Directors, the bonus to be allocated to shareholders should be NT\$1.2 per share. Meanwhile, it is proposed to distribute the cash at NT\$0.9 per share from the legal reserve. Therefore, the total cash dividends to be allocated to shareholders should be NT\$2.1 per share.

3. Estimation of substantial change in the dividend policy of the company: None

**(VII) Effect of the uncompensated rationed shares deliberated at this meeting of shareholders on the Company's business performance and earnings per share:**

N/A

**(VIII) Remuneration for Employees, Directors and Supervisors**

1. Percentage or scope of remuneration for employees, directors and supervisors set forth in TFC's Articles of Incorporation:

In accordance with Articles 27-1 and 27-2 of TFC's Articles of Incorporation:

If TFC has any profits, the profits will be distributed at the percentage below: remuneration for employees at 2.4%, and for directors and supervisors at within

1.6%. However, if TFC has any losses, the profits shall be made good for deficit for previous years.

The resolutions made in the TFC's Board Meeting regarding the remuneration for employees, directors and supervisors must have more than one half of directors present with consent of more than one half of the directors present, and must be reported in TFC's general meeting of shareholders.

2. The basis for the estimate and recognition of the employee bonus as well as directors' and supervisors' remuneration, the basis for the calculation of the placed and issued shares for dividends and the accounting handling in case of difference between actual distribution amount and estimated amount for this period:

The estimated employees' dividends for the current period accounting for NT\$ 45,474 thousand and the amount of remuneration for TFC's directors and supervisors accounting for NT\$30,316 thousand are estimated at 2.4% and 1.6% of profits in 2017 on the basis of Article 27-1 of TFC's Articles of Incorporation without distribution of share dividends. If actual amount of allotment is different from the estimated amounts, such will be deemed as changes in accounting estimates, which will be recognized as the profit and loss for 2018.

3. Information about the remuneration for employees, directors and supervisors to be distributed by the Board of Directors of this year:

- (1) Remuneration for employees, directors and supervisors to be distributed at cash or stocks

The proposed amount of allotment adopted in the Board Meeting (as shown in the table below) is calculated at 2.4% and 1.6% of profits in 2017 on the basis of Article 27-1 of TFC's Articles of Incorporation. If actual amount of allotment is different from the estimated amounts, such will be deemed as changes in accounting estimates, which will be adjusted in 2018.

Unit: NT\$K

Item	Proposed distribution amount passed by the board of directors
Cash remuneration to employees	45,474
Stock remuneration to employees	None
Remuneration for directors and supervisors	30,316

- (2) It is required to deliberate the amounts of employees' remuneration and the percentage in the net income after tax and total amounts of employees' dividends in the individual financial reports: N/A

4. Conditions for actual distribution and payment of remuneration for employees, Directors and Supervisors for the previous year (including number of allotted shares, amounts and prices of shares). If there is any difference in the recognized remuneration for employees, Directors and Supervisors, it is required to specify number of difference, reasons and treatment conditions:

The actually distributed remuneration for employees, directors and supervisors for 2016 has been recognized as expense in 2016, and are the same as the proposed conditions of allotment as adopted by the former meeting of directors.

Unit: NT\$K

Item	Estimated amount to be distributed by the board of directors	Actually distributed amount
Employees' remuneration	0	0
Remuneration for directors and supervisors	0	0

**(IX) Buyback of the Shares of the Company**

For FY2017 and FY2018 as at the publication date hereof, no buyback of the shares of the Company.

**II. Corporate Bonds:** None

**III. Preferred Stocks:** None

**IV. Overseas Depositary Receipts:** None

**V. Employee Stock Options:** None

**VI. Status of New Shares Issuance in Connection with Mergers and Acquisitions:** None

**VII. Financing Plans and Implementation:** N/A

## Chapter Five: Operation Highlights

### I. Business Content

#### (I) Scope of Business

Taiwan Fertilizer Co., Ltd. has been developing mainly under two major business groups, namely “fertilizer chemical” and “real estate development and investment”. Meanwhile, the internal supporting management of the Company has been structured into six sections according to functions. Descriptions are as follows:

##### 1. Fertilizer and chemical business:

###### (1) Fertilizers products:

Considering industry development trend and government’s policy of promotion friendly agricultural environment, in addition to the original fertilizer, we constantly expand the green agricultural industry towards the organic development of fertilizers as well as develop biotech agricultural products and promote niche fertilizer products. The company uses the advantages including fertilizers expert experiences and Know-You’s brand value to progressively explore overseas markets; meanwhile, we assess the appropriate collaborative opportunities or investment plans in seeking for new opportunities for the development of fertilizer industry.

###### (2) Chemical products:

Based on the original business in chemical and electrochemical products, the sales, market, and business in chemical products have been expanded by way of integration of upstream and downstream products as well as upgrade to electrochemical products. In the oversea market, the focus has been on the investment in electrochemical products and the penetration of international electrochemical market, both in production and in sales, so that the technology, knowhow, and market shares of our electrochemical products can be enhanced.

###### (3) Trading logistics:

Incorporating the existing procurement business in raw materials, taking advantage of the edge of the special piers at Taichung Harbor along with the planning of free trade zone therein, the Company has constructed a number of chemical storage tanks to further expand the business of import procurement, unloading warehousing, transit trade, while actively transforming into the role of a provider for product integration services and a supplier for relevant raw materials

##### 2. Real estate development and investment business:

###### (1) Development of residential buildings:

Utilizing the existing lands by the development of self-help or co-operative congregate housing, such as Nangang Business Park R13-1 Residential Development and R17 Residential Development, Hsinchu D7 Residential and Office Development, Keelung Land Development etc. During accumulate relevant experiences, we will also facilitate the Land Acquisition Plan by external evaluation for the acquisition of proper lands; we play a professional role of creating profits by selling the congregate housing and taking establishment of self-owned brands as the direction of development.

###### (2) Operation of real estate:

The Urban Development Plan of the local government has changed the lands occupied by old plants to non-industrial lands, which have become the essence

region along with urban development. Among all, the lands for building Nangang Business Park are the most valuable; and the lands for Hsinchu Science Park and Kaohsiung Commerce and Trade Park are the second most valuable. Those lands can be utilized by hotels, shopping centers, offices and other commercial buildings. Currently, the construction of Taipei Nangang Business Park C2 has been initiated after acquiring the construction permit and the rental business of Hsinchu Science Park TFC One office building has been started. In the future, the lands will be classified by suitability for the development of commercial real estate by the means of rental or the model of self-construction and self-management on different districts and different timing. In addition to the annual profitability providing the company with long-term stability, we will obtain the value-added benefits of real estate development.

(3) Investment:

In the future, we will uphold the principle of “production driven by sales” to expand the domestic and foreign development investment on chemical fertilizer industry, including the three major categories of new artificial intelligence (AI) agricultural industry, Eco-friendly agriculture and deep ocean water industry. Also, we will continuously develop new high-efficiency fertilizer, Eco-friendly agricultural materials and microbial preparation products as well as exploring the organic agricultural and fishery business; furthermore, for deep rooting the exploration of deep ocean water industry, we have utilized deep ocean water as the foundation of establishing Hualien D Park of Taifer and the products including the algae carrying natural minerals in the deep ocean water, bottle water, deep sea salt, concentrated liquid, cosmetics and skincare products and health care food products.

## (II) Industry Overview

### 1. General Economic Environment

In 2017 by the end of the global recession, simultaneous economic recovery occurred in the advanced and emerging and developing countries. The prices of most commodities were driven upward and the increasing global demands drove the trade recovery. Among which, the investment from US corporate picked up and the consumer spending also increase; in addition, the Eurozone benefited from central bank monetary policy, political risks fading and global trade rebounding are the evidences show the strong tendency of economic expansion; moreover, obvious increase of Japan’s export and capital expenditures proved that the deflationary pressures are eased; meanwhile, numerous important economic data in Mainland China showed slower growth.

In the domestic aspect of 2017, the continuous growth in the export, industrial manufacturing, retail and catering industry as well as the overall economic situation keeping stable proved that the overall business boom was still growing steadily. To strengthen the momentum of the business boom recovery, the government will focus on the three aspects of liberalization, efficiency and investment by progressively facilitating the liberalization of financial regulations, improving the efficiency of investment administration, strengthening the function of strategic environment assessment, stabilizing the provision of lands, water, electricity, manpower, talent and optimizing innovative startup environment. Besides, we will progressively promote the five plus two industrial innovation by the means of industrial transformation that drives Taiwan’s economic development as well as increasing the national income.

Looking forward to 2018, the major economic forecasters have predicted that the global growth momentum is expected to continue. The United Nations (UN) has

estimated that the global growth rate of 2018 is at 3.0%, which is unchanged from 2017. However, there are still a lot to be concerned about in the future, such as the pace of normalizing the global monetary policy, international hot money flows, the impact of US tax reform to the globe besides the rise of trade protectionism and the geopolitical risk between Middle East and North Korea as well as uncertain factors such as the debt problem of enterprises in Mainland China.

2. Recent Status and Development of the Industry

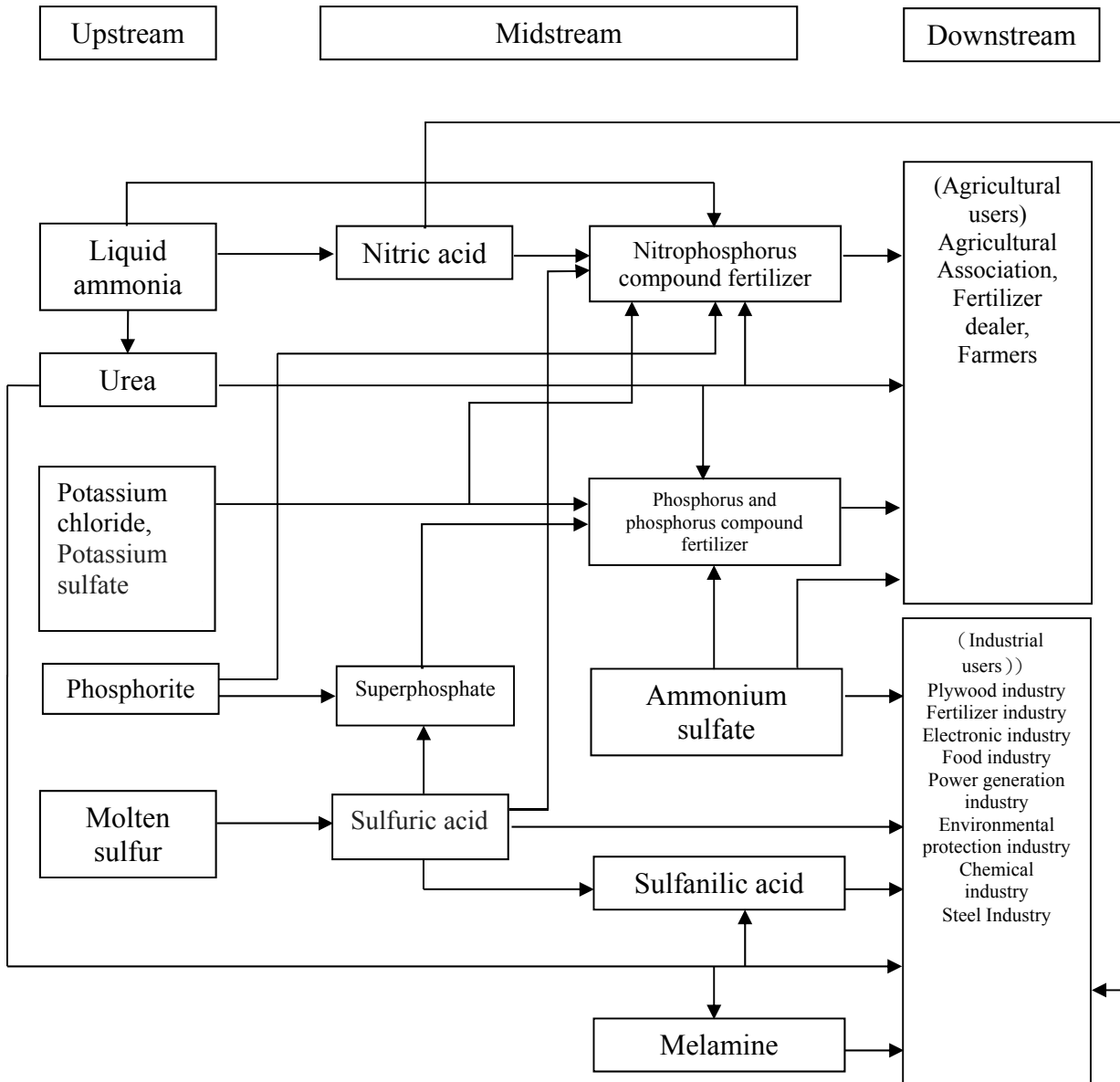
(1) Overview, Development Tendency and Race Condition of Fertilizer Industry:

- A. The fertilizer industry, a mature and essential industry with a long history, is closely related to people's livelihood. Recently, the government has implemented the organic fertilizer policy towards the promotion of developing friendly agricultural environment. In the second quarter of 2017, we mainly subsidized major fertilizer compound prepared for organic substance. In the future, the compound organic fertilizer will gradually replace the traditional compound fertilizer.
- B. There is a lack of raw material for producing fertilizer in our nation, almost all of which are imported. Because the production costs are influenced by the prices of international fertilizer raw materials, we can only be in line with the government's policy of caring for farmers. As a result, the prices of domestic fertilizer have been constrained by the government for a long time.

(2) Overview, Development Tendency and Race Condition of Chemical Industry:

In recent years, Taiwan has been witnessing an outflow and brain drain in chemical industry as a result of scarcity of natural resources and lack of competitiveness therein. At present, all products of the company, except for nitric acid, sulphanilic acid and fuming sulfuric acid, which are subject to transportation and storage restricts on them or their by-products, are still produced in Taiwan. Imported goods have outgrown as the dominant sources for items such as liquid ammonia, industrial urea, etc.; products in downstream market are all supplied to Taiwan to meet internal demand, except for sulphanilic acid that is sold to Europe and America. In the relatively mature and saturated market, it is saturated yet relatively stable.

The fertilizer chemical industry up/mid/downstream relationship diagram



(3) Overview, Development Tendency and Race Condition of Electric-grade Chemical Industry:

Electric-grade chemicals are generally referred to various chemicals that can be used in the process of electronics industry or facility end, the product items include single organic solvents of simple substance, alkaline acid solution of simple substance to formulas of different proportions. At present, the products are used in the processes such as yellow developer, peeling, itching, polishing and cleaning in semiconductor, panel, solar energy and LED industries.

The value of output of domestic semiconductor industry has broken through NT\$2 trillion and more than 200,000 people are employed by this industry. The value-added rate of this industry has exceeded 50% and it contributes at least NT\$1.1 trillion to the GDP of Taiwan each year. As for panel industry, the investment of AUO and Innolux was improved by 8.5- generation plant capacity; while the market demand of LED industry was not as good as expected and the average prices of chips and packages decreased to a large extent. Looking into the future, the compound annual growth rate of LED industry will not achieve a growth of more than 10% as it has reached in the past; however, there is still room for it to develop. Speaking of solar industry, the huge solar cell capacity of Taiwan will focus on integrating its large plants in China vertically and the cooperative OEMs in a third place such as Vietnam and Malaysia. Generally speaking, the demand of electric-grade chemicals will grow positively based on the innovative application and continuous capacity expansion in various electronic industries, which proves that there is still space for development in electric-grade chemicals market.

The electronic grade chemicals are the examples of perfect competition. In addition to our commitments to achieving the quality requirements of different industries and different clients, accordingly, our company needs to deepen product production control, quality assurance, technical support and assistance, and comprehensive after-sale customer service. Besides the existing clients in panel industry, we will upgrade relevant technical capabilities to develop semiconductor industry related products and make downward proliferation in seeking solar energy as well as the niche products in LED industry. It is hoped to combine the current self-produced ammonia by Miaoli Plant with the products such as nitric and NMP with the capabilities of distillation, formulation, separation and waste liquid recycle, to expand our product range for offering the comprehensive one-stop shopping service.

(4) The introduction and the development trends of deep ocean water industry

DOW (Deep Ocean Water) is generally referred to the seawater 200m below deep ocean. Contacting with no light all year round, DOW is featured with low temperature, cleanliness, maturity and rich minerals. As a kind of emerging water resource for multi-purpose development and application, DOW can be used in a wide scope. Currently, only Japan, Hawaii of the U.S., Korea and Taiwan has formed efficient DOW development of certain scale worldwide.

In view of the arrival of aged society and awareness of health, health care food industry is attaching more and more importance on minerals. Hualien Plant of the Company is the DOW production base that produces DOW products with the deep ocean water drawn from the sea 662m below Western Pacific in the east coast of Hualien Harbor. In addition to extending the platform utilization of deep ocean water industry, our company has established self-owned deep ocean water breeding and algae as well as progressively introducing relevant downstream manufacturers to work together for value-added industrial output

volume.

(5) Overview, Development Tendency and Race Condition of Land Development Industry:

1. Residence:

After the trading volume collapsed in 2016, the overall residential market transactions of 2017 were made by private buyers and the volume has gradually increased moderately by quarter. In the aspect of transaction volume, New Taipei City and Taichung City increased the volume by 20% annually; the annual growth rate Taipei City and Kaohsiung City were at 9.1% and 8.6% respectively; in the aspect of prices, after nearly three years of revision trend, the housing prices in the region of Taipei City, New Taipei City and Taoyuan City have been out of the sharp fall. In the 4<sup>th</sup> quarter of 2017, except the prices in Taipei City and New Taipei City maintained in stability, the prices in the rest areas showed moderate rise, so the situation is undergoing a state of stability in the north and moderate rising in the south. The number of days regarding the transactions in residential market was similar to the last year's, the average single price remained unchanged, but there were slightly increases on the total price and the size; the number of days regarding the transactions in residential market of Hsinchu area was smaller than the last year's while the average single price remained stable and the total price and size increased remarkably in the fourth quarter.

In 2017, the number of annual residential real estate sales and transfers in Taiwan was 266 thousand units, which is 8.5% higher than the number of 245 thousand units in 2016, each individual number of transfers was higher than the previous year. Also, 4.51% increase of annual mortgage loans balance and 4.13% increase of annual financing loans showed a slight recovery occurring in overall boom with a sign of build-up from the bottom. On the whole, due to the policy stops strongly regulating and the limitation of price correction force, the buying market is still based on home demand and the new construction projects are mostly small sizes. However, the market will be undergoing the consolidation pattern for a certain period resulting from the inventory amount of surplus housing; moreover, several high-priced and high-standard luxury homes projects in Taipei city's elite area will launched in 2018, it's worth to observe and take it as the trend of future housing market.

Many indexes of 2017 showed that the real estate market has rebounded from the bottom, but it does not mean that the prices will be reversed. There is no sign showing the buying evidence in the current market. The buyers are still careful about the prices and they also refer to the recent transaction prices. Consequently, in 2018, the pattern will be continuously attracting the buyers and the prices will be undergoing high probability of consolidation.

2. Commercial Real Estate:

In 2017, the large transactions of annual commercial real estate reached about NT\$ 72.6 billion, which is 8% lower than the last years'. The transaction price of offices in Taipei City was also lowering along with the overall real estate market. The momentum of buyers was based on the rental rate of return. However, when the owners were reluctant to sell and the uncertain factors caused by the local election of county mayors in 2018, it's not conducive to the return of investor's funds to the real estate market. Therefore, it is expected that the transaction volume of 2018 commercial real estate will remain low, and the main momentum will be from the diversified transformation of enterprises and the expansion of the self-demands.

Nevertheless, the rent and demand of offices are not in a pessimistic situation. A rise in average rents in Taipei city, and the rent remains NT\$ 2,080/ping as well as the average vacancy rate has been revised down to 6%, which is the lowest rate in recent

10 years; moreover, the office demands in Taipei A and A+ districts keep being buoyant and the rent in Hsinyi A+ districts has reached NT\$ 2,909/ping, which is a record-high price. In the future, the Taipei Nan Shan Plaza, which is about to be complete, may push up the prices of A+ office. Meanwhile, the newly released top-class office building size has push up the vacancy rate of A+class from 9% to 13%. Basically, the fluctuation of Taipei City Office stays stable, for example, the rent of Xihu section of Neihu Technology Park is NT\$ 1,300/ping, and the rent of Nangang Business Park is NT\$ 1,250/ping. There are continuous purchases made by private buyers, enterprises stationing to keep the vacancy rate remaining low.

Additionally, the commercial real estate market in Hsinchu City is influenced significantly by the industries in the Hsinchu Science Park. Currently, the demands from high-tech and semiconductor industry is buoyant, the demand momentum of offices for commercial and industrial usages is still powerful; however, the new demands of factory expansion is accompanied by the industrial policy of each county and city as well as the urban planning norms of each district. As a result, our company’s demands in Hsinchu Science Park will be based on the linking expansion in the surrounding and the migration of the original urban office population. Furthermore, because our company’s lands still have the advantages of convenient traffic locations and adjacent to Hsinchu downtown area, we are competitive in creating an office building park area.

According to statistics from Tourism Bureau, in 2017, the number of visitors to Taiwan was 10.73 million people, which is a 0.46% increase compared with last year. The tourist hotels in Taipei City are still domestic self-owned brands, and the international hotel chain continued stationing. However, the average international hotel room rate of 2017 was NT\$ 4,384, the occupancy rate was at 73.23%, which is a 4% decrease compared to last year while the occupancy rate had a 1% increase. Besides, multi-tourism strategy has worked well, so the total number of visitors does not decrease. Instead, many hotel owners were not able to make immediate response with new operation methods in dealing with the sudden reduction in the number of visitors and the ripple effect of earthquake disaster, so they all desired to sell the hotels. The hotels in Taitung and Hualien have already been affected, the hotels in Yilan and Kenting along with the owners of Bed & Breakfasts will be following up.

**(III) Technology and R&D overview**

1. R&D expenditure

Item	Year	2016	2017
	R&D expenditure (NT\$K )		65,291
Proportion in business volume (%)		0.53%	0.73%

2. Achievements in recent 2 years

The company strengthens cooperation with foreign research institutions, introduces new technology and shortens the R&D period by following the innovative strategies and transformation of scientific technology to enter the high-tech market. We will keep improving our microbiologic fermentation technology, establish enzyme hydrolysis extraction technology, DOW highly economic aquaculture technology, inorganic and organic fertilizer formula, and development of core technologies such as process technology and purification technology for electrochemical products, etc.

(1) Development of biotech fertilizer

#### A Application of agricultural microbial strain - development of biotech fertilizer

To strengthen our company's core technology of organic fertilizer production, we continue to deeply root the field of organic fertilizer and provide more high-quality organic fertilizer products. Our company's Miaoli Plant has been facilitated with an organic fertilizer research center, which has established the organic fertilizer factory with the production capacity of 6,000 tons in 2015 and produced “# 5 Organic Compound Fertilizer” and “# 11 Biotec Organic Fertilizer” for farmers; in 2017, for meeting the demands of fruit crops, we developed “Taifer Organic No.7 Organic Fertilizer” N-P<sub>2</sub>O<sub>5</sub>-K<sub>2</sub>O=3-2-5-80 (organic stimulant) (Fer manufactured(Zhi) No. 0465022 , item 5-12 mixed organic fertilizer) , . This product is made by a variety of fermented plant residues and it can improve the physical and chemical properties of the agricultural lands. Currently, all the three products mentioned above have completed the application of the “recommended domestic organic fertilizer brand” and “recommended organic agricultural commodity brand”.

To solve the problem of suspended particles produced by rice straw burning in the field, our company will facilitate Council of Agriculture's policy of “promoting the reuse of straw and the reduction of open-air combustion” by the means of the core technology of fertilizer production, in 2017, our company transferred the technology to “Taichung District Agricultural Research and Extension Station” as the “preparation and application technology of compound grass-decomposing bacteria” for the production of “Know-You No.10 Biotec Organic Fertilizer”, N-P<sub>2</sub>O<sub>5</sub>-K<sub>2</sub>O=4-2.5-2.5-70 (organic stimulant) (Fer manufactured(Zhi) No. 0644014, item 5-12 mixed organic fertilizer). The product is added with “straw-decomposition germs”, which can effectively make the straw become black, soft and rotten, so the agricultural straw waste can be reused as the soil nutriment. It is an option for farmers to choose. Instead of burning the rice straw, the method is a new nutritious option to farms and helps to improve problem of rice straw burning by farmers.

On the other hand, our company also actively cooperate with the with the government's biogas power generation policy, it was the first time we combined the fermented animal manure with rice straw decomposing germs and agricultural bacterium. In July 2017, we developed and launched the new product “Know-You No.12 Biotec Organic Fertilizer”, N-P<sub>2</sub>O<sub>5</sub>-K<sub>2</sub>O=3-3-2-70 (Organic stimulant) (Fer manufactured(Zhi) No. 0042045, item 5-11compositing) , . It not only promotes the agricultural recycling economy, reduces pig feces and urine discharged into rivers and maintains a friendly environment for water quality, but also provides soil nutriment for raising the farm capacity for sustainably cultivation. Know-You No.10 and No. 12 Biotec Organic Fertilizer are now listed in the “recommended organic fertilizer containing the rice straw decomposing germs in the application of rice industrial counseling project” announced by Agriculture and Food Agency of Council of Agriculture, Executive Yuan.

#### B Development of organic liquid fertilizer applicable for organic agriculture

Sate food produced by organic agriculture and sustainable agricultural lands are the leading global trend and important policy of our country. This plan adopted the formulated concentration of highly-active organic small molecules extracted from the natural organic material by physical methods in

the organic agricultural cultivation management, the resisting adversity ability of the crops was remarkably enhanced as well as the quality and production volume improvement. It's expected to complete the fertilizer registration certificate procedures in the first half year of 2018 and follow up the application of "recommended raw material brands of organic agricultural commodities" as well as completing 500L factory amplification production and the test of two-field validation.

C Field validation of organic materials and establishment of cultivation technique

Our company emphasizes the deep-rooting and exploration of organic agriculture in Taiwan. In viewing the promotion of the green capacity development, we progressively implemented the research and development of organic raw material and fertilizer in the hope of providing farmers with good quality and useful organic agricultural raw materials. In 2014, we establish "Taifer Biotech Farm". In September 2015, we acquired the certificate of organic transformed agricultural produce (MOA1520029) by "MOA International Foundation of Nature Ecology". After the 2-year organic transformation, we acquired the certificate of organic agricultural produce (MOA1510390) in April 2017. Our company has facilitated the planation of seasonal vegetables and the organic cultivation test of fruit crops (without chemical fertilizers and pesticides) by continuously adopting the "Know-You Brand Power Stimulants series" of recommended raw material brand of organic agricultural commodity and the series products of "Taifer Organic Compound Fertilizer series" in 2017. At the same time, we facilitated the pest management by the means of biological control method to confirm the product efficacy. Currently, we have validated and established six kinds of crops produced by organic cultivation with the proper application of suitable fertilization technology, including broccoli, cauliflower, cabbage, strawberry, sweet pepper (including green pepper) and muskmelon.

Our company has upheld the progressively coordinating farmer's practical field experiences with the organic farmers in Miaoli area to facilitate collaborative tests and demonstrations, such as the organic strawberry test collaborated with the "Yongchang Organic Strawberry Farm", the organic muskmelon test collaborated with "Town South Organic Farm", the organic rice crop test collaborated with the "Huixiang Organic Corp." and the organic dragon fruit test collaborated with "Lujing Farm Complex". Among which, our company collaborate with "Lujing Farm Complex" in establishment of organic cooperative-demonstration farm on May 11<sup>th</sup> 2017 in the hope of expanding the promotion of organic and eco-friendly agriculture by the means of external cooperative-demonstration farm.

(2) Development of biological pesticides

In response to the rise of safety and organic agriculture, Taiwan Fertilizer Co., Ltd. is committed to the development of environmentally friendly, non-toxic and safe agricultural microbial preparation. Ever since 2009, our company has worked with Taiwan Agricultural Chemicals and Toxic Substances Research Institute of Council of Agriculture, Executive Yuan for proceeding the industry-university cooperative plan of "biological pesticide and bio-fertilizer commercialization product development of liquefied starch bacillus", which successful developed the phosphate bacteria microbial fertilizer, "Known-You

Taifer Biopower Phosphate-solubilizing bacteria biofertilizer”, we simultaneous continued the research experiment of suspended liquid bio-pesticides for the prevention of strawberry botrytis cinerea (including fermentation formula and mass production model, toxicology test, physical and chemical properties test, quality control management test, field efficacy test and etc.). In 2017, we completed required test data for pesticide registration and we passed the pesticide standard specification test of the “Taiwan Agricultural Chemicals and Toxic Substances Research Institute”. The effective ingredients (the number of spore) contained in this product can reach more than  $1 \times 10^9$  CFU/mL and meet the specification norms of suspension concentrates.

At present, the project has been sent to “The Advisory Committee on Pesticides” of Bureau of Animal and Plant Health Inspection and Quarantine of Council of Agriculture, Executive Yuan for formal review; meanwhile, our company has carried out the field efficacy test and given the presentation of phytotoxicity test. “Bureau of Animal and Plant Health Inspection and Quarantine” has completed the convening of the “Review Conference of the Pesticide Consultative Council” at the end of December 2017. After we obtain the formal inspection notification and the announcement of product instructions by the Bureau of Animal and Plant Health Inspection and Quarantine, we will be able to apply the registration of agricultural product. In the future, this product can be used as the strawberry and vegetable crop botrytis cinereal control agents.

In recent years, our company has gradually constructed strawberry health and safe cultivation modes for optimizing the biological control agents used in strawberry field cultivation. Therefore, after the industry-university cooperative plan of “biological pesticide and bio-fertilizer commercialization product development of liquefied starch bacillus” and the development of the agricultural bio product to control the strawberry botrytis cinerea, our company has progressively developed the second biological control agent by proceeding the “development plan of comprehensive bio-control agent for strawberry pests and diseases”. This plan adopted the technology transferred from the patented strain-streptomyces- *Streptomyces padanus*, PMS-702 to the research and development of the bio-pesticide of preventing the disease of strawberry rot. At the current stage, we are proceeding the GLP physical and chemical test and filed tests.

### (3) R&D of micronutrients fertilizer

During the cultivation period of the economic crops, in order to meet the needs for plants to grow better, bear more fruits, and enhance stronger sweetness with the application of fertilizers, practice has been conducted based on the concept of prevention-&cure-two-in-one to reduce the occurrence of physiological disorders on crops, to supplement the trace minerals lacking, and to develop comprehensive products of trace minerals. Our company collaborated with Kaohsiung District Agricultural Improvement Station for conducting the 2-year technical commercialization plan of “research and development of new micro-factor fertilizers” by adding quantity and trace elements lacking in addition and deployment to the formulation of deep ocean water high mineral concentration solution rich with mineral elements . And we also regulated the optimal concentration varied by different crops and developed the optimal quantity and trace elements in rationalization of fertilization with crops to improve crop production quality after application.

In 2016, the field tests of applying the preliminary formula to the small fruit

tomatoes, cabbage, wax apple and litchi were completed, and the results showed significant improvement in the soluble solid of fruit. In 2017, adjustment of property and element in accordance with the product formula was made for creating the liquid trace element fertilizer formulation suitable for the registration of heading 4-40. After the comparison of field experiments between this fertilizer and the secondary trace element fertilizers commonly used by farmers, the results showed that the fertilizer that was applied to crops with appropriate dilution helped to improve the harvest quality of wax fruit, litchi, tomato, cabbage, leaf vegetables, pineapple etc.

(4) Strawberry (fertilizer, medium) agent development plan

In order to expand and develop our company's agents of fertilizer and pest management, we take the high-economic crop, "strawberry" in Miaoli area as the target. The main species adopted are "Fengxiang" and "Xiangshui (perfume)", and we also searched for other appropriate species by continuous developing the supporting application of fertilizer agent and the safe agricultural cultivation techniques without using pesticides during the whole process. With the help of Yuanpei University of Medical Technology, Japanese Sanpu Farm and IMCO Co., Ltd. were introduced to our company. Japan Sanpu Farm has many years of experiences regarding strawberry production technology, in addition to their deep study of cultivation medium, the fertilizer agents they adopted for their technology are also diversified to meet the demands of producing "healthy, safe, and reassured" strawberries. Adopting the strawberry production technology developed by Japan Sanpu Farm, we proceeded with the industry-university cooperative plan of "the trial cultivation by using method of Japanese safe strawberry cultivation management", and the results verified the feasibility of producing healthy and safe strawberries in Taiwan, such as the successful use of supporting agents. We will evaluate the technology transfer and make trial development along with the promotion of our company's existing supporting agents. At present, the result of preliminary test showed that this method has a positive effect on strawberry growth.

(5) Multi-species cultivation in different sections of deep ocean water

In 2006, our company commissioned National Taiwan Ocean University (NTOC) for conducting the tests for the in-depth understand that the two key factors, high-osmotic pressure and low water temperature, can increase the fatty acid and fat content of the fish from the fish culture as well as better flavor. Consequently, in 2017, our company simultaneously established the HDPE aquaculture ponds to produce fish and shrimp and used the microbial nutrition supporting agents in the fish culture technology to produce orbicular batfish, Japanese sea bass and white shrimp. In addition, our company built a large scale outdoor algae production module by the application of the three characteristics of deep ocean water (DOW), low temperature, detergency and rich in nutrients for proceeding the mass aquaculture production technology of producing different algae with edible value and rich in nutrients, such as large *Ulva Lactuca*, sea fungus and *Ulva prolifera*. In 2017, in order to obtain a stable large amount of algae seedlings, our company worked with National Taiwan Ocean University (NTOC) to proceed with the "research plan of growing *Ulva prolifera* seedlings and life-history regulation". The preliminary results have established the mass production technology of breeding *Ulva prolifera* spores, quantity production technology of indoor *Ulva prolifera* and the *Ulva prolifera*

conservation technology.

We cooperated with 100% deep ocean water application policy for the full application of deep water resources and achieved the goal of the most effective use and reducing the cost of water. Our company selected the target species of algae, fish and shrimp for multistage expansion of aquaculture. Due to the deep ocean water temperature is low, the average temperature of the water taken to the farm is about 12-15°C. Therefore, the 1<sup>st</sup> water section is mainly for breeding low temperature algae, such as *Ulva prolifera* and pointed red ling *Solieria*; the 2<sup>nd</sup> water section is mainly for breeding *Ulva Lactuca* and sea fungus; the 3<sup>rd</sup> water section is mainly for breeding fish and shrimp; in the future, we will also plan the 4<sup>th</sup> water section for aquaculture and fattening.

(6) Evaluation of safety, quality and efficacy of collagen peptide in fish scale

Ever since 2007, the fish scale collagen peptide sold by our company wins customer's effective feedback by continuous purchasing. In order to find corroboration data to facilitate its follow-up marketing, in September 2017, we commissioned Chia Nan University to conduct the "evaluation of the safety, stability and efficacy of Taifer collagen peptide". The results showed positive effect to skin moisture retention and skin elasticity by taking milky fish scale collagen peptide; also, taking seabream fish scale collagen peptide showed improved effects to skin moisturizing and water retention, skin softness, skin pores and elasticity. Additionally, the test confirms that the use of cosmetics (formulated with 10% collagen peptide solution) along with taking fish scale collagen peptide shows better results than merely taking collagen or merely using cosmetics. On the safety side, there's no irritating reactions occurring on the test takers' skin, such as itching, redness, feeling of thorns or swelling. After the tests, the fish scale collagen peptide produced by our company has been confirmed of the effectiveness: 1. Improving skin moisturizing and promoting skin moisture retention; 2. Enhancing skin soft texture; 3. Reducing the appearance of large skin pores; 4. Increasing skin elasticity.

(7) Development of electronic grade NMP purification technology

N-methyl pyrrolidone (NMP) is mainly used as a general solvent. Electronic grade NMP is used in lithium battery manufacturing and electronics industry. Because of its strict requirements of high-purity specification, ever since November 2016, our company has been working with Material and Chemical Research Laboratories of Industrial Technology Research Institute until now, we have finally overcome all the difficulties of purification of industrial grade NMP as the highest level of UPS grade products. This cooperative project mainly overcomes the technical specification thresholds including containing amine lower than 1ppm, increasing the level of purity higher than 99.9%, decreasing the chroma below 10 APHA and containing the amount of anion ion in the ppb level.

**(IV) Development plan of medium and long-term and short-term business**

Category	Short-term business	Medium and Long-term business
Fertilizer industry	<p>(1) To stabilize the existing industry, strength after-sales service, continuously improve fertilizer quality so as to satisfy quality requirements of customers.</p> <p>(2) To separate the market, develop and introduce niche products and keep promoting fertilizers with high additive values so as to increase sales income.</p> <p>(3) To improve packaging quality, strengthen advocacy of new fertilizers, establish test, demonstration and explanation sessions in highly economic crops area of entire province in order to increase the additive value of products.</p> <p>(4) In line with the Southward Policy of the Government along with the global deployment through the construction of ten Plants in the West, work has been undertaken to integrate the industry need of the domestic market, as well as to redirect the excess of fertilizer capacity from domestic market outwards via exporting so as to lay out a foundation for the target oversea markets.</p>	<p>(1) To continuously develop high-technology organic fertilizers in coordination with development of organic agriculture.</p> <p>(2) To refine the agriculture development in order to promote high-component and high-quality fertilizers.</p>
Chemical industry	<p>(1) Anhydrous Ammonia: the downstream demands for supply source shall be stabilized based on the advantages of storage tank.</p> <p>(2) Industry urea: Packing and delivery shall be finished in Taichung Plant to reduce secondary transportation risks on the way to Miaoli Plant and market share shall be expanded flexibly.</p> <p>(3) Nitric acid: the output of nitric acid is increased after operation of Taichung Plant, which can help expand domestic and overseas market.</p> <p>(4) Melamine: the delivery-to-shop service shall be promoted to increase the market share with good quality and service.</p> <p>(5) Sulfamic Acid: the quality and</p>	<p>(1) Anhydrous Ammonia: A complete supply chain has been established at Taichung Plant to satisfy customers' needs.</p> <p>(2) Nitric Acid: Taichung plant has the capacity to stabilize the supply to meet domestic clients' demands. We expect to expand our exporting business in the second half year of 2018 as soon as the thickening plan is completed for expanding our market scale.</p> <p>(3) Sulfa Acid: We adopted the outsourcing mode to reduce the production cost. And, we will continue maintaining the close contacts with clients and progressively explore the southern European markets (Spain/ France/ the</p>

Category	Short-term business	Medium and Long-term business
	<p>service shall be improved to stabilize supply and delivery time and increase the market share in Europe and American market.</p> <p>(6) Sulfuric acid and Oleum: the marketing shall be promoted based on competitive price and acid recovery capability in coordination with the remaining capacity of fertilizer.</p>	<p>UK).</p> <p>(4) Fuming sulfuric acid: Currently, the business model is through outsourcing to reduce production costs, and the yearly sales is targeted at 14,400 tons.</p> <p>(5) Melamine, industrial urea: It shall be moved to Taichung Plant in coordination with warehousing to improve product quality, quantity and concentration, and continues to serve its customers, so as to expand the market.</p>
Electronic grade chemical products	<p>With the aim to take full advantage of the maximum synergy of Miaoli Plant, semiconductor industry will be entered proactively to expand sales of electric-grade chemicals in addition to activating existing production equipment, developing solvent product recovery and regeneration and purification business and increasing capacity utilization.</p>	<p>With 3 acids and 1 alkali as the development focus, number of self-produced items will be increased and processing quality assurance ability will be improved; R&amp;D technology class will be strengthened and after-sales service and customer relation management will be deepened; technical capacity will be improved upwards to serve IC industry customer base and product scope will be spread downwards to solar and LED industries; and competitive niche products will be produced, in order to enhance the overall profitability.</p>
DOW	<p>Our company will develop Hualien Deep Ocean Park by staged developments, so Taiwan Deep Ocean Water Company will continuously the research and development of the application of deep ocean minerals, establish domestic and foreign marketing network, self-built aquaculture and processing industry as well as progressively introducing external resources for facilitating the rentals and industry-university collaboration.</p>	<p>Once the land acquisition and activation of deep water resources are completed, with the observation of the prosperity in domestic tourism industry, we will make other plans for involving ourselves in other fields or industries.</p>
Land development	<p>(1) The C2 Development Project at Nangang Economic and Trade Park: It is estimated that a building permit can be obtained in 2017. And consequently, it is planned to make design change, continuous wall construction, and outsourcing of the construction projects, etc.</p> <p>(2) The D7-A Development Project of</p>	<p>(1) Land development plan of 7C in special trade area of Kaohsiung : Kaohsiung City government has initiated the urban land rezoning operation. Once it is completed, the exploring operation will be able to carry out.</p> <p>(2) The proposal of modifying the urban planning on Dongming Road,</p>

Category	Short-term business	Medium and Long-term business
	<p>Hsinchu Science and Business Park: The construction of Commercial building TFC One has been completed in 2017. At present, the relevant manufacturers have signed the contracts of stationing.</p> <p>(3) Stage 12 urban land planning of Hsinchu: Regarding Phase I re-planning, the administration of land registration had been finishes in 2018.</p> <p>(4) D7 development Project for Hsinchu Technology and Business Park: Later on, in accordance with the comprehensive planning of D7, another new development plan, D7A, is to follow afterwards.</p> <p>5. Development project of Nangang Business Park residential housing R13-1: Our company will act as the executor of urban renewal implementation. At present, we have completed the business plan and the review of authority transformation plan. Also, we acquired the construction permit at the end of 2017 to continuously promote the residential housing development and sales.</p>	<p>Keelung City: We expect to negotiate with potential demanding units and complete the terms of cooperation by the end of 2018.</p> <p>(3) Hsinchu Phase II City re-planning: The work of engineering drawing plan and drainage planning has been reviewed where the plans are to be completed in 2021.</p> <p>(4) Hualien land: We continue developing the Deep Ocean Water Aqua Industrial Park, and we plan to introduce relevant industries as the core of development for increasing the rate of land utilization and efficiency.</p>

## II. Overview of market and production & sales

### (I) Market analysis

#### 1. Sales area

Category	Product name	Sales area
Fertilizer products	Ammonium sulfate, Urea , Potassium chloride Calcium superphosphate, Compound fertilizer, Organic fertilizer	The areas of Taiwan, Penghu, Kinmen and Matzu
Chemical products	Industrial urea	Taiwan area
	Anhydrous Ammonia	Taiwan area
	Nitric acid	Taiwan and Southeast Asia area
	Melamine	Taiwan area
	Sulfamic Acid	European and the US areas
	Sulfuric Acid and Fuming sulfuric acid	Taiwan area
Electronic grade chemical products	Ablution, etchants, organic solution, inorganic acid solution	Taiwan, Southeast Asia, Mainland China
Land development	Residency, commercial real estate	Taipei, Hsinchu, Kaohsiung, Keelung, Hualien and etc.

#### 2. Market share, future supply and demand and growth

##### (1) Fertilizer products

Regarding fertilizers required in the domestic market, apart from urea and potassium chloride which are totally reliant on imports from abroad as none is produced here at home, the rest of the fertilizers can all be produced here at home by domestic fertilizer manufacturers once raw materials from are imported from abroad. The company has the rich experience, largest output and most complete production equipment of fertilizer in Taiwan with the quality of all products is better than others, making our products more competitive and enjoys a market share of about 70%.

##### (2) Chemical products

A. Industrial urea: Since the discontinue of the production of urea, the existing key accounts of the Company then started to imported the products for their own use or resale, becoming the main competitors against the Company. In recent years, as the downstream industries are outflowing abroad, the demand in the domestic market has gradually been shrinking where agricultural urea has become a substitute; hence, selling Industrial-grade urea is becoming increasingly difficult and challenging. The market share of urea of the company is about 40%.

B. Liquid ammonia: the three major importers of liquid ammonia in Taiwan are TFC, Sinopec, and Formosa Plastics. However, Sinopec is not equipped with its own storage tank; Formosa Plastics is unable to sell domestically due to its location at the Mailiao Industrial Harbor. Hence, the Company has become the exclusive supplier of liquid ammonia in Taiwan, and the sales and market has been relatively stable. The electronics industry constituted the largest business dealing in the current downstream pipelines. If the global economy continues to develop stably, there shall be more room for growth.

Noticeably, some downstream industries are facing competition against China, it is seen that production is unstable or may tend to be migrated elsewhere.

- C. Nitric acid: 65% of the total nitric acid produced by our company is a converted to the compound fertilizer. The fertilizer production requires about 100 thousand tons of nitric acid, and about 65 thousand tons of nitric acid can be sold to the market. In recent years, the competition between the imported and the domestic competitors, we are facing a fierce market competition. Also, exporting was interrupted by the low acceptance of 65% concentration, so the exporting will be postponed until the completion of thickening plan in the second half year of 2018.
- D. Melamine: Since the production cease of Melamine, customers or importers can freely import for their own use or resale, becoming the main competitors of the Company. The downstream processing industry has gradually migrated elsewhere, which has led to the shrinking demand; thus far, the price war on Melamine has already been fiercely fought where the market share has dropped to about 40%.
- E. Sulfamic Acid: The major export market is Europe and America with annual sales volume of about 12,000mt. The production of Sulfamic acid worldwide is about 190,000 metric tons, and demand on it is about 150,000 metric tons. The production is obviously exceeding the demand. The competition has been seen among Taiwanese, Chinese, and Indonesian manufacturers which are not slow on trading at competitive prices and squeezing their profit margins.
- F. Sulfuric acid and Oleum: The products supplied by the company face the competitions from other domestic manufacturers and the market competition is fierce.

(3) Electric grade chemicals

So far, the company has low market share in electric grade chemicals. With regard to future strategy, products relevant to ammonia and the core industries, acid-alkaline series, will be focused on. In addition to mastering raw material advantages and enhancing competitiveness and serving as an upstream supplier, the Company will also integrate its existing resources, improve its equipment utilization ratio, reduce production cost and strengthen its R&D ability and produce products of niche formulas. At the same time, it will compete with peers in order to supply customers directly and thus achieve higher benefits.

3. Expected sales value

The estimated sales of fertilizer products in 2018 is 675 thousand tons; 184 thousand tons of chemical products; 156 thousand charge-offs of Al-Jubail Fertilizer Company Urea; 16 thousand KL of electronic grade chemicals.

4. Niche for competition:

(1) Fertilizers

- A. As the largest fertilizer manufacturer and supplier, it has a long history and owns the leading brand in market.
- B. The quality is reliable, which has passed CNS Mark and ISO 9001 certification, and the products are trusted by farmers.
- C. Product differentiation: We have Taiwan's one production equipment producing nitrophosphate organic compound compound fertilizer, and we have also successfully developed the technology of adding peat, and its

patent has been applied in many countries. The product quality and the effect are superior to the product produced by domestic competitors.

- D. With completed, various products, it can meet clients' demand for one stop shopping by self-producing or importing.
- E. The after-sales service network is available through Taiwan, we have business centers, north, central and south. Our service agents are available for every country nationwide and they provide comprehensive and real-time after-sales service. We also have numerous delivery centers.
- F. The business conditions are mastered exactly and purchase conditions for raw materials are superior to those in same industry.
- G. The teams for R&D, advertising progressively can provide high-tech products creatively, continuously and deal with tests for fertilizer efficiency and explanation session for new products all over this province so that the capacity of product development, advertising is superior to that in same industry.

(2) Chemical products

- A. Nitric acid: 65% of our nitric acid has large production capacity but low lower cost; the domestic market channel of which is stable.
- B. Liquid ammonia: A dedicated storage tank is available through the Company which is the only supplier of this kind in the domestic market.
- C. Sulfamic Acid: With certain popularities and stable market share, the Company has operated chancels of European and American markets for a long time.
- D. Melamine: With stable supply and good quality, the Company owns basic domestic clients.
- E. Industrial urea: As the sole manufacturer previously, the Company has established good brand reputation and keeps favorable interactive relationship with upstream clients and downstream clients. At present, the imported products can supply domestic markets with sufficient supply of goods, which can meet clients' demand for goods without stock-out.
- F. Sulfuric acid and Oleum: The supply of goods in our company is stable and the quality is reliable.

(3) Electric grade chemicals

- A. Based on core of the Company and relevant products in this industry (such as ammonia, 3-acid 1-alkali, etc.), the Company can reinforce competitive force by using, mastering niche of raw materials and reducing costs of production.
- B. Equipped with the distillation, blending, and split charging OEM capacity of solvent products, and various technical capability and permits to recover and reuse waste liquids.

5. Favorable, unfavorable factors and countermeasures for development:

Category	Favorable factors	Unfavorable factors	Countermeasures
Fertilizer products	<p>(1) The domestic fertilizer market was freed from January 2003 and all owners compete for competitive conditions. The Company is more excellent than those in same industry at the aspect of quality, costs of production, marketing channels, advertising and after-sales service.</p> <p>(2) With improvement of knowledge, the farmers require creation and change, especially in great demand of new fertilizers with special functions and the advanced R&amp;D teams in our company can promote new products in order to meet farmers' demand appropriately.</p> <p>(3) Since the 2<sup>nd</sup> quarter of 2017, the government has been subsidizing the compound fertilizer added with organic agents and this is beneficial to the quality upgrading of our company's traditional compound fertilizer and the development of completely organic compound fertilizer.</p>	<p>(1) Since the domestic fertilizers are scarce and all raw materials depend on importation, the costs of production are quite high and easily affected by international price and fluctuation of ocean freight so that the costs of fertilizers cannot be reflected without allowance of government.</p> <p>(2) In order to keep the supply and demand of domestic chemical fertilizers, the government noticed that export sales of fertilizers should be approved by Council of Agriculture previously from May 2008 to restrict exportation of fertilizers.</p> <p>(3) Our company in line with government's policy of taking care of farmers, the fertilizer prices have been constrained for a long time.</p>	<p>(1) Adjust combination of products, improve sales profits, continuously improve quality of products, reduce costs of production and increase competitive power of products.</p> <p>(2) Develop basic, multifunctional and excellent products (such as including beneficial microbial fertilizer, organic compound fertilizer, etc.) to keep difference of products, improve added value and meet clients' demand.</p> <p>(3) Promote excellent organic fertilizers to meet strong demand of consumers for organic agricultural products.</p> <p>(4) Improve service for clients, including demonstrational popularization, field trial, result review and emulation, initiation and education for fertilizers, rapid treatment for clients' complaints, explanation session for new products, sample presentation for trial, plant visit, etc.</p>

Category		Favorable factors	Unfavorable factors	Countermeasures
Chemical products	Industrial urea	<p>(1) As the unique domestic manufacturer, the Company has established good brand reputation and leading position.</p> <p>(2) The supply of goods is sufficient, which can meet clients' demand and get rid of anxiety for stock-out.</p>	<p>(1) Since the Company stopped producing urea and the government approved free importation, some bigger clients of the Company started to import freely for self-use and sales and competed for urea market. Besides, they own equipment for self-storage and packages to reduce costs, which is quite unfavorable to the Company.</p> <p>(2) Many Taiwan's manufacturers have relocated to the Mainland China - resulting in the reduced demand on the industrial urea in the domestic market.</p> <p>(3) Since the urea is approved to import freely, the quality and price compete strongly or "agricultural" urea may be used for replacing "industrial" urea, the market order is affected.</p>	<p>(1) Master international urea market for cheap, excellent and sufficient goods.</p> <p>(2) Regulate favorable price, compete for clients or provide differentiated service by delivering goods to stores.</p> <p>(3) Compete for large, medium or small manufacturers which use raw materials.</p>
	Anhydrous Ammonia	<p>(1) Though Anhydrous Ammonia is allowed to import freely, yet specialized wharf, large capacity storage tank and unloading, storage equipment is needed specially for importing Anhydrous Ammonia. At present, only the Company and Formosa Plastics Sixth Naphtha Cracking Plant own the equipment. Because the Mai-liao Harbor of</p>	<p>(1) Since the Miaoli Plant of our Company stops production, Anhydrous Ammonia required domestically largely depends on export and the selling price is affected by international price. The cost structure controlled by our Company is reduced relatively, and its price is unstable.</p> <p>(2) Provided that the Anhydrous</p>	<p>(1) Master business condition exactly and purchase low price, spot Anhydrous Ammonia appropriately.</p> <p>(2) Consider the competitive power of downstream clients, make price flexibly and appropriately in order to stimulate demand.</p>

Category	Favorable factors	Unfavorable factors	Countermeasures
	<p>Formosa Plastics is an industrial port where liquid ammonia cannot be sold, downstream users usually purchase products from the Company.</p> <p>(2) Since Anhydrous Ammonia belongs to high dangerous chemicals and experienced professionals are required for unloading, storage working, only the Company and Formosa Plastics have relevant technologies at present.</p>	<p>Ammonia that imported by Formosa Plastics can be used for selling or the storage tank of Sinopec is constructed, the competitive power of the Company for selling Anhydrous Ammonia is weaken.</p>	
Nitric acid	<p>(1) The Company can deal with self-importation of Anhydrous Ammonia which can be used for producing nitric acid as raw materials. Besides, the unloading, storage equipment for importing Anhydrous Ammonia are set in Taichung Plant and the Company keeps leading position for mastering costs of raw materials ,so the cost of production is lower. But the competitive power is high.</p> <p>(2) The equipment for production in Taichung Plant is new, of which the yield is large and the cost of production is lower.</p>	<p>Taichung Plant can manufacture 65% of nitric acid and never produce 68 ~ 98% of concentrated nitric acid. At present, it cannot provide diversified service.</p>	<p>Promoting clients to accept 65% of nitric acid and efficient induced-conversion gradually. Export sales will be promoted after concentration plan is completed in 2018. At early stage, the sales prices will be strategically guided by the creation of marginal contribution, and are subject to adjustment as the market changes.</p>
Melamine	<p>(1) As the unique domestic manufacturer previously, the</p>	<p>After the Company stops producing melamine, some large clients start to</p>	<p>Ensure quality of products, master quotations in international market</p>

Category	Favorable factors	Unfavorable factors	Countermeasures
	<p>Company owns basic clients and good market reputation.</p> <p>(2) To import products of high quality and stability for high degree of customer satisfaction.</p> <p>(3) Import largely and build safe retail inventory so that clients can pick up goods smoothly, without anxiety for stock-out. Import good-quality, stable products so the acceptability of clients is high.</p>	<p>import initiatives in order to disperse risks, which can impact domestic market of melamine for the Company.</p>	<p>and import price and adjust selling price flexibly to keep competitive advantages.</p>
Sulfamic Acid	<p>(1) The quality is stable and the Company can cooperate with ammonium sulfate plants in order to make the best use of recycled and avoid environmental protection problems.</p> <p>(2) Since operating main channels of European and American markets for quite a long time, the Company has certain reputations and stable market shares.</p>	<p>(1) Our Sulfamic Acid products are sold totally, the selling price of which is affected by internationally market deeply.</p> <p>(2) Since Indonesia and Mainland China have put into production and cause supply is greater than demand, all manufacturers compete for prices in out-sales market in order to keep market shares.</p> <p>(3) The isomorphism type of Sulfamic Acid products is quite high and technologies of production are low. Besides, they can be replaced by developing countries with sufficient raw materials easily.</p>	<p>(1) Ensure stable quality and safety, quickness during transportation.</p> <p>(2) Make quotation differently based on different competitive conditions of out-sales market.</p>
Sulfuric acid	The self-storage and imported smelt sulfuric acid own equipment	(1) Since the opponents are of great quantity, the isomorphism type is	(1) Keep the costs of purchased materials stable in order to

Category	Favorable factors	Unfavorable factors	Countermeasures
	advantages for sales, which can adjust retail inventory and gain profits.	high and recycled acid can flow easily. (2) The storage tank is located in Taichung which is far away from the sulfuric acid market, mostly likely losing its competitiveness.	pursuit appropriate profits. (2) Keep current channels smooth and clients' honesty and ensure market shares.
Fuming sulfuric acid	On account of producing calcium superphosphate, the Company has capacity to assist clients to recycle byproduct acid and clients' dependency is quite high.	Since the downstream clients are simplex, sales conditions are affected by industrial environment and starting time greatly. With addition of lacking self-production capacity, the profits are compressed.	Accelerate to demolish or construct calcium superphosphate factory in Taichung Plant and improve capacity of recycling acid.
Electronic grade chemical products	(1) Electronics related industry is still the key industry in Taiwan. Despite the impact of the red supply chain in recent years that led to shrinking the industrial growth, the semiconductor industry will still be expanding. Also, the panel, solar energy and LED industry still keep in a certain scale, so the prosperity of the market is still expectable. (2) The production and quality control technologies of our electronic products are from HPC, which is the brand accepted in domestic TFT-LCD industry. In the future, the technical layer should be improved and the products and service should be provided for relevant industries,	(1) As the Company enters into this industry quite late, the market is occupied by favorable brands, the supply chain in market is quite stable and the certification for quality of materials in photo-electricity industries, it is quite hard to develop market. (2) Since the business cycle of electronic industries is quite short, manufacturers reduce costs or raw materials and chemicals and control price of electric grade chemicals, which can affect space of profits. (3) In order to occupy product share rapidly, some new suppliers consider reducing price as principal axis of strategies and clients used to choosing supply	(1) Provide low costs products by plants of the Company or outsourcing plants as quickly as possible. (2) Improve quality assurance capacity of processing, reinforce R&D technology grade, build complete logistics system, improve after-sales service of products and management capacity for customer relationship and manufacture products with good profitability formula in order to improve profitability. (3) Reinforce sales team's technical service capacity and improve brand reputation and customer trust. (4) Reinforce the response capacity of manufacturers for production

Category		Favorable factors	Unfavorable factors	Countermeasures
		<p>such as, semiconductor, solar energy and LED industry positively.</p> <p>(3) For our electric grade chemicals in future, Miaoli Plant will be the center for production and supply, which is the center of Taoyuan County, Hsinchu County, Miaoli County and Taichung County in concentrated area of domestic electronic industries and can provide Just in Time Service needed by this industry urgently.</p> <p>(4) Integrating our company's core industry of three acids and one alkali, we have the competitive advantage in obtaining advantage raw materials to reduce the production cost. And, our self-produced products will get into the niche market.</p> <p>(5) As a large domestic acid user, the Company can recycle electronic spent acid solution from clients to transform them into industrial products and to solve clients' anxieties for treatment of spent solution.</p>	<p>chain by prices. Thus, the prices are slumped.</p> <p>(4) As the variation of self-made products is not diversified enough, it cannot assist customers' comprehensive supply and it is quite difficult for the products to enter current market.</p>	<p>mode of a few diversified products in order to improve chances to get orders.</p>
Land development	residential market	<p><b>Taipei residential market:</b></p> <p>(1) The residential land of the Company is located in R13 Street block in Nangang Economic and Trade Park, near Nangang</p>	<p><b>Taipei residential market:</b></p> <p>(1) Although the housing market is out of the slump, the rise in Nangang business park is increasing. In recent 2 years, the</p>	<p><b>Taipei residential market:</b></p> <p>(1) This 2-room and 3-room project is positioned for self-use, and it will be built on schedule. And its construction material and</p>

Category	Favorable factors	Unfavorable factors	Countermeasures
	<p>Software Park. Green belts along the roads in the surrounding have been constructed. Also, there are many newly built buildings, together giving a very presentable image for the entire area.</p> <p>(2) CTBC headquarters has been opened while the large-scale development project on the land of C3 project has also been launched – all these have brought about incentives to customers along with the life functions that can be offered.</p> <p>(3) Over the years, the many projects that TFC has proposed have well established the brand of the Company and its reputation in the region.</p>	<p>investor’s failure and the negative new on the media. The buyers are still under wait-and-see situation, chances of higher prices are limited.</p> <p>(2) In this case, the base area 300 Ping is relatively small. One side of the base is adjacent to a public temple and some old apartments; this may make the lower floors of the building more resistant by customers.</p>	<p>facilities will be planned practically. At present the market status has gradually become better, the pre-sale or housing sale will be confirmed accordingly.</p> <p>(2) It is planned to build high-quality residential units which are expected to complete in 3 to 4 years after which the environmental quality in this region is to be promoted.</p>
commercial real estate	<p><b>Leasing market of commercial real estate in Taipei City:</b></p> <p>(1) The land of the Company is located in the Nangang Economic and Trade Park, with the advantages of thorough traffic infrastructure and convenient transportation network, near Xinyi Planning District and Neihu Technology Park; so far, Phase I, II and III project in Nangang Software Park has reached a full pre-leasing result where the buildings are to be</p>	<p><b>Leasing market of commercial real estate in Taipei City:</b></p> <p>(1) Taiwan is under economic sluggish conditions, the demands for new business buildings become relatively lower. New building supply is sufficient in Hsinyi district. Foreign capital may be invested at better locations with better quality such as Hsinyi and Dunbei business circle. It’s a relative competition for business offices in Nangang Business Park.</p>	<p><b>Leasing market of commercial real estate in Taipei City:</b></p> <p>(1) The commercial real estate of the Company in Taipei City is adopting models such as the overall planning and design, the whole building leasing, or the building for sales, so that risks can be transferred and stable income/profit can be obtained.</p> <p>(2) Work with the professional team to collect market information is undertaken where cooperative MOUs are to be entered into with</p>

Category	Favorable factors	Unfavorable factors	Countermeasures
	<p>fully occupied. The CTBC Bank headquarters building in Nangang has also completed construction and started to function. Industrial clusters in this area are getting increasingly mature.</p> <p>(2) Major construction project will be launched in the future. Besides the Taiwan Life Insurance C3 Development Project, which is expected to be completed by the end of 2020, we plan to introduce Mitsui's Lalaport shopping mall. Taipei Pop Music Center will be completed in 2018. Hall 2 of Taipei Nangang Exhibition Center will be completed in 2019. In addition to the Eastern District Portal Promotion Project, there will be numerous lands to be developed, such as bottle cap factory, the site of Nangang plant joint-development and Taiwan Power Company's Nangang maintenance center. And, there will be more population and industries attracted to station.</p>	<p>(2) The Nangang district is not the core region of Taipei City. Although there are benefits from significant construction and the regional lease rate is successful, there is still no improvement to the rent. In addition, the land premium tax in Nangang area has been greatly increased, it's predicted that in the future, the tax for office building will be increased. Due to the tax will be transferred to tenants, the gross profit of rent from the office building will be lowered.</p>	<p>potential residents moving in, so as to have control over renters and reduce vacancy rate. It is also possible to dispose of certain offices in response to market situation, so as to reduce the risks associated with development.</p>
	<p><b>Leasing market of commercial real estate in Hsinchu :</b></p> <p>(1) The Hsinchu Science &amp; Commerce Park of the Company is adjacent to Wulu Interchange of Zhongshangao Road and</p>	<p><b>Leasing market of commercial real estate in Hsinchu :</b></p> <p>(1) Tai Yuen Hi-Tech Industrial Park near Hsinchu Science &amp; Commerce Park has formed IC design industrial group, and the</p>	<p><b>Leasing market of commercial real estate in Hsinchu :</b></p> <p>(1) The market of office building in Hsinchu is affected by Hsinchu Science Park seriously. According to science industry and demand</p>

Category	Favorable factors	Unfavorable factors	Countermeasures
	<p>center of Hsinchu City, the transportation of which is convenient.</p> <p>(2) Planning-to-suit, i.e. it is to be tailor-made for the entire office building; since it is close to Hsinchu Technology Park, there is still potential need in the market of whole building project.</p> <p>(3) Many offices of Hsinchu City Center are old and full in addition to the full use of lands in Hsinchu Science Park, there is a situation of a large amount of self-demand request from the companies in Hsinchu Science Park. This park meets the expansion needs for the technological factories.</p>	<p>seven stages of development should be completed continuously. In addition, many office buildings near national Wulu Road are completed. All of them are powerful potential opponents of development for Hsinchu commercial office buildings in Hsinchu.</p> <p>(2) Limited to the business plan of the science and business park, the business types to be introduced in this park may not fully reflect the needs of the customers.</p>	<p>for industrial updating of industries promoted by the government, the complete office functions should be provided and life convenience or other completed planning, which creates an office park abreast of time.</p> <p>(2) Adjust the planning and design to attract customers that are a match to the provisions of the science and business park, and to actively solicit business to shape up the business atmosphere of this area.</p>

**(II) Important use and manufacture process of main products**

## 1. Usage of main products

## (1) Fertilizers

Name of fertilizers	Nitrogen- phosphoric anhydride- potassium oxide	Usage
Ammonium sulfate	21-0-0	Base fertilizers and top dressing of all plants
Urea	46-0-0	Base fertilizers and top dressing of all plants
Potassium chloride	0-0-60	Base fertilizers and top dressing of all plants
Calcium superphosphate	0-18-0	Base fertilizers
Compound fertilizer	Multiple formula	Base fertilizers and top dressing of all plants
Organic fertilizer	Multiple formula	Base fertilizers

## (2) Chemical products

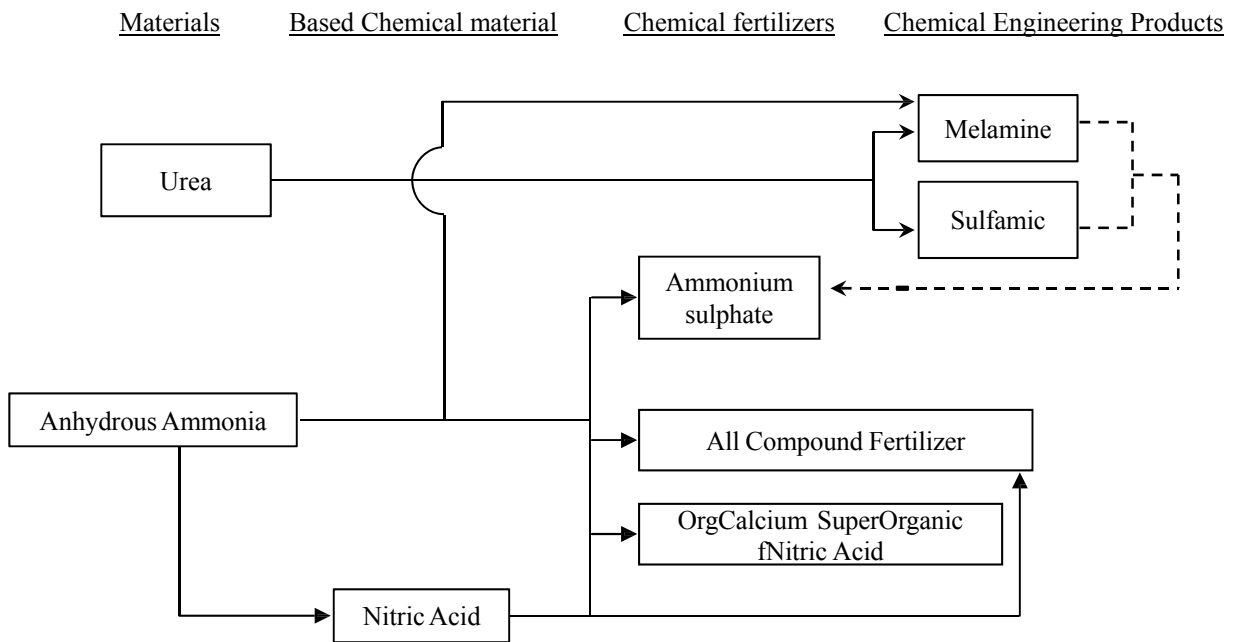
Product Name	Specification	Usage
Industrial urea	Including 46% of nitrogen	Resin, melamine, dyeing and finishing, composites plate, dyeing and finishing, green algae, chemicals, environmental protection.
Anhydrous Ammonia	99.50 % purity	Monosodium glutamate, refrigeration, electronics, steel, chemicals, etc.
Nitric acid	65~68 % concentration	Mental treatment, electroplate, pigment, chemicals, common industrial usage, etc.
Melamine	99.8 % purity	Resign, molding powder, composites plate, dyeing, finishing, etc.
Sulfamic Acid	99.5 % purity	Flame retardant, softener, metal detergent, pigment, saccharin, food additives, analytical reagent, etc.
Sulfuric acid	98 % purity	Mental treatment, electroplate, chemicals, reagent, detergent and common industrial usage.
Fuming sulfuric acid	Including 25% SO <sub>3</sub>	Common industrial usage

## (3) Electric grade chemicals

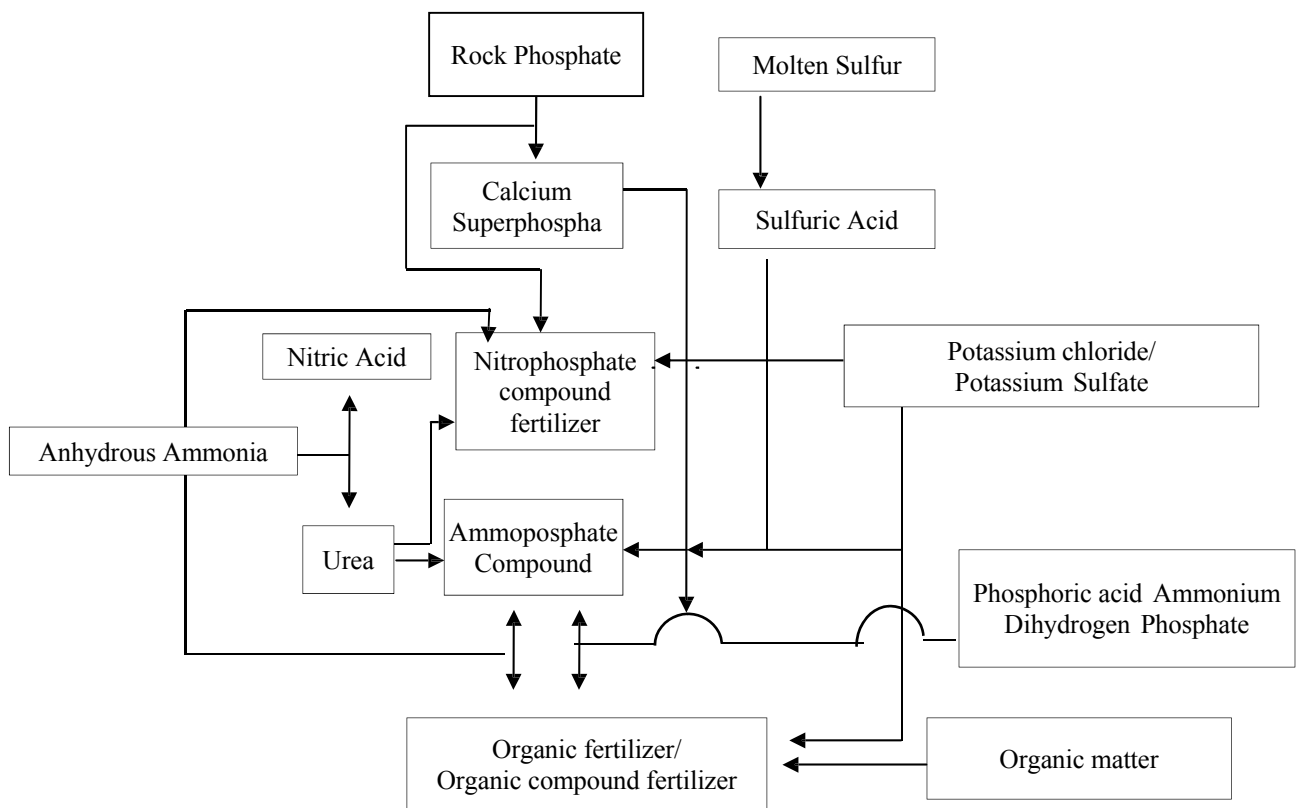
Name	Specification	Usage
Ablution	Electronic grade	Wafer, Clean the faceplate after photoresist is stripped.
Etchants	Electronic grade	Wires of faceplate are etched.
Organic Solution	Electronic grade	Clean and re-clean all sections of processing faceplates.
Inorganic acids and alkali	Electronic grade	Etched developing of semiconductor, panel, solar energy and LED etching, development, and cleaning.

**2. Manufacturing process of main products**

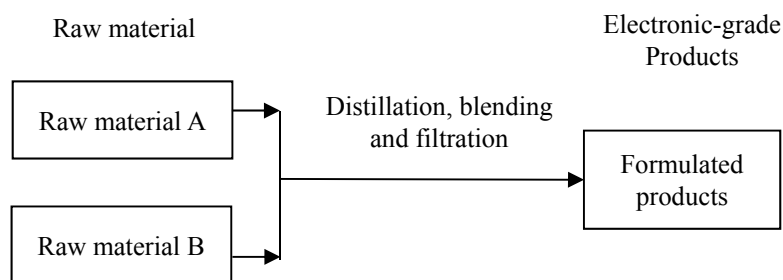
(1) Association graph of Anhydrous Ammonia and downstream products



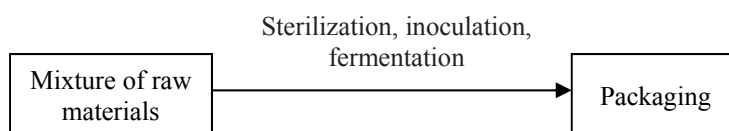
(2) Compound Fertilizer Raw Material Association Diagram



(3) Manufacturing process of electronic grade chemicals



(4) Process of manufacturing of Microbial fertilizer



**(III) Supply conditions of main raw materials**

Raw material	Supply Condition
Urea	It is mainly purchased outside, most of which is from Mainland China. Besides, the Company gains urea from transferred-investment company-Al-Jubail Fertilizer Company by buy-back.
Anhydrous Ammonia	It is mainly purchased from Sabic Asia Pacific Pte. Ltd by long-term agreements.
Sulfuric acid	It is mainly purchased from Japan through long term agreement, the supply of which is stable.
Rock Phosphate	The main sources of supply are Jordan, Israel and Morocco.
Potassium chloride	Most of it is imported from Canada, Jordan, Israel and Russia.
Melting sulfur	It is purchased by ordering contracts with CPC Corporation and Formosa Petrochemical Corporation.

**(IV) In the following table, the names of clients whose purchase (selling) amount is 10% or more than 10% of total amount in either year of last two years, list of main purchase or selling clients and purchase (selling) amount, proportion are listed. Besides, the reason for increase or decrease is illustrated.**

1. List of main stock manufacturers:

Item	2016				2017				As of the first quarter in 2018			
	Name	Amount (NT\$K)	Proportion of net purchases for the whole year (%)	Relationship with distributor	Name	Amount (NT\$K)	Proportion of net purchases for the whole year (%)	Relationship with distributor	Name	Amount (NT\$K)	Net purchase ratio (%)	Relationship with distributor
1	Sabic Asia Co. Ltd.	2,180,213	21%	Supplier of Anhydrous Ammonia	Sabic Asia Co. Ltd.	1,944,968	19%	Supplier of Anhydrous Ammonia	Sabic Asia Co. Ltd.	640,986	26%	Supplier of Anhydrous Ammonia
2.	Al-Jubail Fertilizer Company	1,026,900	10%	The Company invests more than 50% of transferred-investment enterprises and delivers urea according to agreements.	Al-Jubail Fertilizer Company	945,151	11%	The Company invests more than 50% of transferred-investment enterprises and delivers urea according to agreements.	Al-Jubail Fertilizer Company	334,417	13%	The Company invests more than 50% of transferred-investment enterprises and delivers urea according to agreements.
3	Others	7,027,553	69%	-	Others	6,362,317	70%	-	Others	1,530,802	61%	-
	Net purchases	10,234,666	100%	-	Net purchases	9,057,761	100%	-	Net purchases	2,506,205	100%	-

2. List of main selling clients:

(1) Fertilizer product

2016	Name of client	Amount	Proportion for this year (%)
2016/1~2016/12	Yunlin County Farmers' Association	NT\$ 739,056,000	12.74%

2017	Name of client	Amount	Proportion for this year (%)
2017/1~2017/12	Yunlin County Farmers' Association	NT\$ 643,423,000	12.23%

(V) List of yield for last two years

Unit: mt / NT\$K

Yield Main commodities	2017			2016		
	Capacity	output	Value of output	Capacity	output	Value of output
Ammonium sulfate	150,000	114,200	701,856	150,000	70,000	428,658
Calcium superphosphate	120,000	60,000	216,224	120,000	45,490	206,948
Compound fertilizer	488,500	499,832	4,653,065	543,700	484,547	4,773,920
Nitric acid	165,000	148,388	1,996,678	165,000	145,091	1,775,851
Total	923,500	822,420	7,567,823	978,700	745,128	7,185,377

(VI) List of sales volume for last two years

Unit: mt / NT\$K

Yield Main commodities	Year	2017				2016			
		Domestic sale		Export		Domestic sale		Export	
		Volume	Value	Volume	Value	Volume	Value	Volume	Value
Ammonium sulfate		68,466	420,782	–	–	63,158	386,759	–	–
Calcium superphosphate		26,346	94,945	–	–	25,743	117,112	–	–
Compound fertilizer		487,129	4,533,065	754	8,756	509,967	5,020,097	628	10,450
Agricultural urea		34,454	356,890	35,817	274,268	38,602	399,938	16,121	109,418
Potassium chloride		18,435	186,852	–	–	15,407	163,237	2,200	17,240
Resell Urea from Al- Jubail		–	–	125,155	847,759	–	–	157,720	1,031,528
Melamine		1,384	61,195	–	–	2,761	108,532	–	–
Sulfamic Acid		381	7,580	12,673	209,229	281	6,288	11,555	206,649
Nitric acid		32,223	433,588	–	–	36,291	444,182	–	–
Industrial urea		3,559	38,404	–	–	2,234	26,985	–	–
Anhydrous Ammonia		85,808	1,712,628	–	–	84,571	1,674,928	–	–
Renewable Phosphoric acid		5,526	132,980	–	–	4,828	131,696	–	–
Sulfuric acid		835	989	–	–	1,601	1,798	–	–
Fuming sulfuric acid		13,093	34,526	–	–	10,470	28,148	–	–
Other products		54,166	29,811	–	–	101,383	39,272	–	–
Other operating income		–	1,869,594	–	–	–	1,871,189	–	–
Electronic grade chemical products		4,808	128,063	–	–	7,756	141,756	–	–
Housing		–	277,082	–	–	–	303,718	–	–
Total			10,318,974		1,340,012		10,865,635		1,375,285

### III. Employees

#### (I) Data of employees for last two years till latest annual press

March 31, 2017

Year	2016	2017	Until March 31, 2018
Number of employees	681	678	672
Average age	42.98	42.63	42.71
Average working years	14.00	13.36	13.41
Education	PhD	1.17%	1.18%
	Master	21.29%	22.86%
	Bachelor	51.98%	52.06%
	High School	25.11%	23.75%
	Below High School	0.44%	0.15%

Note: The number of TFC's employees here refers to the total sum of regular staff and contracted staff.

#### (II) Productivity of employees

Unit : NT\$K

Year	2016	2017	Until March 31, 2018
Revenue	11,893,266	11,346,419	3,110,775
Revenue per person	17,464	16,735	4,629
Annual operating profit	675,215	1,275,875	361,928
Annual operating profit per person	992	1,882	539

### IV. Distributed information of environmental protection

#### (I) Loss and punishment for environmental pollution

Item \ Year	2017	Until March 31, 2018
Polluted condition (category, degree)	Slight leakage pollution from the barrels of tons of waste liquid violated the regulations for waste clearance and disposal.	Due to the sudden equipment failure, the discharge of residual material in the tank exceeded the maximum capacity of air pollution control and violated the regulations for air pollution.
Punished unit	Environmental Protection Bureau, Miaoli County	Environmental Protection Bureau, Taichung City
Penalty	NT\$ 6 thousand	NT\$ 1 million
Other losses	None	None

**(II) Countermeasures and potential distribution in the future**

1. Predicated capital distribution for environmental protection in next 2 years:

Year Item	2018	2019
Pre-purchased equipment for preventing pollution and contents of distribution	(1)Anti-air pollution control facilities. (2)Improve equipment of waste water treatment. (3)Clean, treat and recycle wastes; (4)Improve the manufacturing procedures to prevent pollution in main production plants.	(1)Anti-air pollution control facilities. (2)Improve equipment of waste water treatment. (3)Clean, treat and recycle wastes; (4)Improve the manufacturing procedures to prevent pollution in main production plants.
Predicated conditions after improvement	(1)Improve and reduce discharge of pollutants, make sure that treatment for discharged water, air pollutants and wastes can meet regulations relevant to environmental protection in order to avoid contamination accidents. (2)Meet regulations of environmental affection instruction for new plants.	(1)Improving and reducing pollutant emissions to ensure air pollutants, water discharge, air pollutants and waste disposal can all comply with environmental regulations to avoid pollution incidents. (2)Meet regulations of environmental affection instruction for new plants.
Amount	NT\$ 105 million	NT\$ 100 million

2. Influence after improvement:

- (1) Improve and reduce discharge of pollutants, make sure that treatment for discharged water, air pollutants and wastes can meet regulations relevant to environmental protection in order to reduce influence on ecological environment.
- (2) The operation of plants should meet regulations of specification for environmental instruction evaluation and prevent from polluting environment.
- (3) Reduce environmental impact on the public living in the communities near the plants and improve enterprise image.

**V. Labor-capital relationship**

**(I) Important labor-capital agreements**

1. Conditions of labor-capital agreements

The Company has formulated “Implementing Essentials of Labor-management Relation Symposium”, and holds labor-management relation symposium regularly each year. The symposium is hosted by the General Manager or the Deputy General Manager specified by General Manager, who leads HR and first-level staffs to discuss with labor representatives and representatives of all labor unions of TFC to unblock communication channels, publicize business principles of the Company and enhance the interaction between labor and management. In addition, suggestions and advices of workers can happen by means of the Membership Representative Conference, Meetings of Board of Directors and Supervisors and Joint Meeting of Team Leaders regularly held by the Enterprise Union of TFC,. The Company will reply employees’ suggestions and advices in written form and improve based on those suggestions and advices.

Communication method	Frequency
Labor Relations Symposium	Once/year
Labor-management Conference	Once/quarter
Trade Union Congress	Once/year
Meetings of Board of Directors and Supervisors of Trade Union	Once/quarter
Joint Meeting of Team Leaders of Trade Union	Once/quarter

2. Measures for employees welfares

- (1) According to the provisions of the welfare funds, we establish the “employee welfare committee” to manage all the matters regarding employee’s welfare, such as tours and a variety of contests.
- (2) Setting up a nursing room provides female employees a place for nursing and babysitting.
- (3) Setting up a medical office to manage all employee’s medical matters and regularly holding the health examinations.
- (4) There are 13 clubs in the company with diverse type and operated vigorously. The clubs are set for cultivate employee’s interest and self-cultivation.
- (5) Our retired employee will be gifted a commemorative present and get a retirement certificate.
- (6) Marriage and funeral subsidies are available for employees.
- (7) If an employee dies, depending on the cause of death and subject to our company’s guidelines of pension fund, the descendants will be given death benefit, compensation for death and funeral expenses.
- (8) We insure employees against Labor Insurance, National Health Insurance, group life accident insurance and hospitalization insurance.
- (9) We issue annual bonus to our employees. Also, depending our company’s annual operating interests and the rate of surplus, we will give our employees year-end bonuses and employee remuneration.
- (10) Maternity allowance is available for employees.
- (11) Travel subsidy is available for employees.

3. Retirement system

The company has a “Taiwan fertilizer company employees retirement, pension and severance regulations”, which is in accordance with the Labor Standard Act and the Labor Pension Act, for new employees and the selection of senior employees who are applicable to the newly-established pension ordinance, the company should pay monthly 6% of their insured salary to the personal account of Labor Insurance Bureau and the 0~6% of his or her insured salary. Selected senior employees who are applicable as the former labor standards, the company should pay monthly 9% to the retirement reserve account, and at the end of March, in accordance of the 56th law of Labor Standard Act providing for the actuarial replenishment of the difference and periodically convenes the Labor Pension Supervision Committee on a quarterly basis. Employees have to apply for retirement under the fifth of the company's retirement pension and compensation scheme, and those aged 65 should be eligible for retirement, and the retired employees shall be given pension under the labor Standards Act and the Labor Pension Act.

**(II) Employees' actions or moral principles**

The company in accordance with the provisions of the Labor Standard Act, "Taiwan Fertilizer Co., Ltd. employ work rules", in addition to sending letters to notify employees, posting on the company's internal Web site for employees to consult and follow. There is also a "Taiwan Fertilizer Co., Ltd. Director, The supervisor and the first level of personnel in charge of the ethical code of conduct", which has been referred to the company's 2009 investor's meeting report, and the amendments has been referred to and approved by the 31st session of the 33rd Board of Directors on March 29, 2018. It will be referred to the 2018 investor's meeting report. All the guidelines are announced on the company's internal website, so that when the Supervisors and supervisors above (including General manager, deputy general manager, supervisors of each unit level) engage in the company's business activities, their behaviors and morals should follow the norms, and the company's stakeholders should be also notified about the company's moral standards.

**(III) Employees' further education and training**

Year	2016	2017	Until March 31, 2018
Number of classes for training	224	354	37
Person-time for training	1,783	4,745	619
Man-hour for training	9,501	18,799	2,453
Per capita training hours	13.95	27.77	3.65
Costs for training (NT\$)	2,798,000	4,030,000	642,002
Per capita costs for training (NT\$)	4,109	5,953	955.4

**(IV) Labor-capital dispute and loss: None**

**VI. Important contracts**

**(I) Supply and marketing contract**

The Party	Beginning and end of contract	Main contents	Restriction
Marubeni Corp.	1/1/2016~12/31/2018	Supply contract for sulfuric acid	None
Sabic Asia Pacific Pte.Ltd.	1/1/2018~12/31/2018	Supply contract for Anhydrous Ammonia	None
Jordan Phosphate Mines Company	1/1/2018~12/31/2018	Supply contract for phosphorite	None
Farmers' associations in cities or counties, and fertilizer distributors	1/1/2017~12/31/2017	Sales contract for fertilizers	None
Taiwan Sugar Corp.	1/1/2017~12/31/2017	Sales contract for fertilizers	None

## (II) Cooperative contract

The Party	Beginning and end of contract	Main contents
Saudi Basic Industries Corp.	2/8/1980~7/12/2031	Cooperate to invest in Al-Jubail Fertilizer Company, and each party holds 50% equities.
Jinqun International Co., Ltd.	4/18/2011~4/18/2031	Cooperate to invest TR Electronic Chemical Co., Ltd. in Cayman, and TFC holds 51% equities and Jinqun holds 49% equities.
National Chung Hsing University	10/1/2012~10/1/2019	The technologies of “preparations and manufacture method of streptomycetes components for protecting plants” are authorized.
Industrial Technology Research Institute	12/28/2012~12/28/2017	The technologies of “liquefied depolymerization of bionts in ion solution” are authorized
Institute for Biotechnology and Medicine Industry	1/1/2017~12/31/2018	The raw materials of “fish scale collagen peptid” has passed users’ license for national quality standard
Agricultural Chemicals and Toxic Substances Research Institute, Council of Agriculture, Executive Yuan	1/1/2013~1/1/2020	The technologies of “fermentation, mass production and application for microbial fertilizer and liquefied bacillus thermoamylovorans strain Ba-BPD1” are authorized
Agricultural Chemicals and Toxic Substances Research Institute, Council of Agriculture, Executive Yuan	1/1/2013~1/1/2020	The patent of “new liquefied bacillus thermoamylovorans strain Ba-BPD1 and application” is authorized.
Agricultural Chemicals and Toxic Substances Research Institute, Council of Agriculture, Executive Yuan	1/1/2016~1/1/2020	Without the exclusive rights on the “Fermentation, production, and application technology of Bacillus thuringiensis Strain Ba-BPD1 for biological pesticides”.
Agricultural Chemicals and Toxic Substances Research Institute, Council of Agriculture, Executive Yuan	5/1/2016~5/1/2021	With the authority on “Bacillus thuringiensis Strain Ba-BPD1 for aquaculture and related cultivation technology”
Kaohsiung District Agricultural Research and Extension Station, Council of Agriculture, Executive Yuan	1/1/2016 ~ 12/31/2017	Enterprise Technology Commercialization Plan- Development of new type micro-factor fertilizer
Industrial Technology Research Institute	10/17/2016 ~ 1/16/2018	Industrial grade NMP purification for UPS production process technology development
Lujing Farm Complex	3/16/2017 ~ 3/15/2018	Taifer Organic Demonstration cooperative Farm

The Party	Beginning and end of contract	Main contents
Taichung District Agricultural Research and Extension Station, Council of Agriculture, Executive Yuan	7/1/2017 ~ 6/30/2022	Technical authorization of “Production and application technology of rice straw decomposing germ complex preparation”
Taichung District Agricultural Research and Extension Station, Council of Agriculture, Executive Yuan	7/20/2017~7/19/2022	Technical authorization of “Production technology and the application method of Complex farm livestock manure composting fermentation”
Yuanpei University of Medical Technology	8/1/2017~4/30/2018	Industry-University cooperative plan of trial cultivation of safe and non-toxic new-breed strawberry
Chia Nan University of Pharmacy & Science	9/21/2017~12/20/2017	Evaluation of safety, stability and efficacy of Taifer Peptide
National Cheng Kung University	11/1/2017~ 12/31/2019	Industry-University cooperative plan of technical improvement of Taifer Miaoli plan waste water treatment
National Taiwan Ocean University (NTOC)	6/1/2017~5/31/2018	Growing <i>Ulva prolifera</i> seedlings and life-history regulation- Taifer deep ocean water aquaculture application on lands

**(III) Project and other contracts**

Party	Date of commencement of Contract	Main content	Restriction clause
Saturn Engineering Co., Ltd.	Starting from February 13, 2014 until now	Design and construction project of electronic grade ammonium water plant	None
Zhangfeng Engineering Consultant Co., Ltd.	Starting from May 31, 2010 until the urban plan approved and announced by the authority	Technical service work of “Dongming Road, Keelung City Land development and registration of changes in land rights”	None
Japan Kokudo Land Development Co., Ltd.	Starting from October 1, 2011 until the expiry of project warranty subject to all things related to the warranty are completed.	Commisioned Constrution of Congregate housing on Taipei Nangang Business Park R5 Street	None
Liangang Construction Engineering Co., Ltd.	Starting from April 1, 2014 until all construction included in the contract is completed subject to nothing needs to be done by party B	Construction project of commercial buildings in Hsinchu science business circle D7-A	None
Yixiang Architect & Planners, Urban Regeneration Co.	Starting from May 8, 2007 until all construction included in the contract is completed subject to nothing needs to be done by party B	Construction planning and design work of residential housing on Section No. 531, 1 <sup>st</sup> Section, Nangang Section Taipei City	None
JJPan and Partners, Architects and Planners	Starting from February 26, 2011 until all construction included in the contract is completed subject to nothing needs to be done by party B	Manage the technical service work of “construction design and execution of the 1 <sup>st</sup> stage of D7-A development regarding overall planning of Hsinchu science and business park D7 street”	None
Weida Construction Engineering Co., Ltd.	Starting from June 9, 2016 until all construction included in the contract is completed subject to nothing needs to be done by party B	Construction of Diaphragm wall of Taifer Nangang C2 hotel and commercial building	None
HCCH & Associates Architects Planners & Engineers	Starting from October 31, 2011 until one year after acquiring building occupation permit	Technical service work of “Construction design and supervising of the 1 <sup>st</sup> stage C2 and the overall regulation of C2C3C4 Nangang Business Park”	None
HCCH & Associates Architects Planners & Engineers	Starting from February 1, 2013 until all construction included in the contract is completed subject to nothing needs to be done by party B	Technical service work of “construction design and supervising of Hsinchu science and business circle D7”	None

**(IV) Contract for Land Development**

The Party	Beginning and end of contract	Main contents	Restriction
CHEN KU-CHI et al. total 7 persons	Tentative four years upon signature of the contract on March 18, 2008, till completeness of new buildings and settlement of relevant costs	Owners of Plot 66-1 and Plot 68-2 in Nangang Economic & Trade Park of TFC and owners of Plot 66-2, and 68-3 together invest and discuss construction, sales of superior residential buildings.	The Party agrees matters relevant to land development, which should be guided, applied and built by FTC buildings with maximum total floor area, based on the principle of good faith and relevant regulations.
Shinera Construction Co., Ltd.	Commencement was dealt with 5 years from as of the signature date, June 10, 2015, and ownership registration and house delivery should be completed before December 31, 2024.	Urban renewal business of 4 lands of Plot 607, Section 1, Taipei City owned by TFC should be included in the urban renewal business of 25 lands in the same section. The co-construction agreement signed is on the sales of superior residential buildings to be constructed.	The implementer contained in “Urban Renewal Rules” of the agreement is Shinera, who should handle urban renewal procedures. TFC should provide co-construction land as the building land, and Shinera is responsible for integrating the adjacent lands with the co-constructing land, providing all capital needed to execute this project and implementing construction.

## Chapter Six: Financial Summary

### I. The Condensed Balance Sheets and Comprehensive Income Statements for the recent five years and Certified public accountants and audit opinions

#### (I) Information on brief financial statements and comprehensive profit and loss statements

##### 1. Concise Balance Sheet

Unit: NT\$K

Year		Financial information for recent five years					The year ended March 31, 2018 Financial information (note 1)
		2017	2016	2015	2014	2013	
Description							
Current assets		14,192,823	15,301,306	18,900,345	10,533,836	8,300,217	14,959,213
Real estate, plant and equipment		13,744,278	26,753,401	27,232,915	33,573,437	38,410,112	13,667,745
Intangible assets		234,595	257,986	471,995	484,830	496,880	231,531
Other assets		46,985,195	34,405,109	33,898,550	25,904,834	19,321,391	47,847,055
Total assets		75,156,891	76,717,802	80,503,805	70,496,937	66,528,600	76,705,544
Current liabilities	Before distribution	2,231,866	1,680,062	2,248,724	5,881,372	3,470,815	2,607,376
	After distribution	Not distributed	3,738,062	4,306,724	8,037,372	5,430,815	Not distributed
Non-current liabilities		23,832,573	24,433,314	25,287,221	12,222,950	12,283,413	23,800,455
Total liabilities	Before distribution	26,064,439	26,113,376	27,535,945	18,104,322	15,754,228	26,407,831
	After distribution	Not distributed	28,171,376	29,593,945	20,260,322	17,714,228	Not distributed
Owners' equity due to parent company		49,092,452	50,604,426	52,967,860	52,392,615	50,774,372	50,297,713
Share capital		9,800,000	9,800,000	9,800,000	9,800,000	9,800,000	9,800,000
Capital reserve		2,232,791	2,232,791	2,237,678	2,234,334	2,234,334	2,242,491
Retained earnings	Before distribution	37,094,340	37,976,750	40,177,405	39,927,485	38,820,842	37,651,698
	After distribution	Not distributed	35,918,750	38,119,405	37,771,485	36,860,842	Not distributed
Other equity		(34,679)	594,885	752,777	430,796	(80,804)	603,524
Treasury stocks		—	—	—	—	—	—
Non-controlled equity		—	—	—	—	—	—
Total equity	Before distribution	49,092,452	50,604,426	52,967,860	52,392,615	50,774,372	50,297,713
	After distribution	Not distributed	48,546,426	50,909,860	50,236,615	48,814,372	Not distributed

Note 1: The consolidated financial report in 2018 and ended in March 31 was examined by the accountant.

Note 2: The finance statements from 2013 to 2017 were all attested by independent auditors.

Note 3: The figures listed above are based on the resolution made by the shareholder meeting of the next year, but those in 2017 and 2018 are not resolved yet.

## 2. Brief Comprehensive Profit and Loss Statement

Unit: NT\$K

Description	Financial information for recent five years					The year ended March 31st, 2018 Financial information (note 1)
	2017	2016	2015	2014	2013	
Operating income	11,658,986	12,240,920	17,487,077	17,510,273	16,018,546	3,174,453
Operating gross profits	2,601,225	2,006,254	3,875,000	2,912,631	2,247,197	668,248
Operating profit and loss	1,227,938	595,694	2,345,012	1,659,950	788,172	359,380
Non-operating income and expenses	606,115	(616,713)	174,718	1,187,303	1,843,570	159,021
Net profit (loss) before tax	1,834,053	(21,019)	2,519,730	2,847,253	2,631,742	518,401
Continued operation units Net profits for the period	1,619,126	(129,503)	2,427,083	3,068,346	2,538,071	426,292
Loss out of business suspension units	—	—	—	—	—	—
Net profits (loss) for current period	1,619,126	(129,503)	2,427,083	3,068,346	2,538,071	426,292
Other comprehensive profit and loss for current period (Net values after tax)	(655,952)	(171,044)	300,818	509,897	106,299	(169,436)
Total comprehensive profit and loss for current period	963,174	(300,547)	2,727,901	3,578,243	2,644,370	256,856
Net profits attributable to owner of parent company	1,619,126	(129,503)	2,427,083	3,068,346	2,538,071	426,292
Net profits attributable to non-controlling rights and interests	—	—	—	—	—	—
Total integrated profit and loss attributable to owners of parent company	963,174	(300,547)	2,727,901	3,578,243	2,644,370	256,856
Total integrated profit and loss attributable to non-controlling rights and interests	—	—	—	—	—	—
Earnings (Loss) per share (NT\$)	1.65	(0.13)	2.48	3.13	2.59	0.43

Note 1: The consolidated financial report in 2018 and ended in March 31 was examined by the accountant.

Note 2: The finance statements from 2013 to 2017 were all attested by independent auditors.

Note 3: Loss from discontinued business is to be used to reduce the listed net profit after tax of the Company.

## 3. Concise Balance Sheet (Individual)

Unit: NT\$K

Description	Year	Financial information for recent five years					The year ended March 31, 2018 Financial information (Note 1)
		2017	2016	2015	2014	2013	
Current assets		13,612,812	15,035,072	18,645,302	10,293,965	8,034,798	—
Real estate, plant and equipment		13,640,123	26,619,098	26,918,099	33,231,463	38,088,566	—
Intangible assets		28,922	20,567	28,311	40,945	52,956	—
Other assets		47,807,025	34,946,418	34,865,330	26,873,209	20,119,565	—
Total assets		75,088,882	76,621,155	80,457,042	70,439,582	66,295,885	—
Current liabilities	Before distribution	2,163,017	1,582,350	2,201,043	5,826,145	3,238,116	—
	After distribution	Not distributed	3,640,350	4,259,043	7,982,145	5,198,116	—
Non-current liabilities		23,833,413	24,434,379	25,288,139	12,220,822	12,283,397	—
Total liabilities	Before distribution	25,996,430	26,016,729	27,489,182	18,046,967	15,521,513	—
	After distribution	Not distributed	28,074,729	29,547,182	20,202,967	17,481,513	—
Owners' equity due to parent company		—	—	—	—	—	—
Share capital		9,800,000	9,800,000	9,800,000	9,800,000	9,800,000	—
Capital reserve		2,232,791	2,232,791	2,237,678	2,234,334	2,234,334	—
Retained earnings	Before distribution	37,094,340	37,976,750	40,177,405	39,927,485	38,820,842	—
	After distribution	Not distributed	35,918,750	38,119,405	37,771,485	36,860,842	—
Other equity		(34,679)	594,885	752,777	430,796	(80,804)	—
Treasury stocks		—	—	—	—	—	—
Non-controlled equity		—	—	—	—	—	—
Total equity	Before distribution	49,092,452	50,604,426	52,967,860	52,392,615	50,774,372	—
	After distribution	Not distributed	48,546,426	50,909,860	50,236,615	48,812,372	—

Note 1: The consolidated financial report in 2018 and ended in March 31 was examined by the accountant.

Note 2: The finance statements from 2013 to 2017 were all attested by independent auditors.

Note 3: The figures listed above are based on the resolution made by the shareholder meeting of the next year, but those in 2016 are not resolved yet.

## 4. Brief Comprehensive Profit and Loss Statement (Individual)

Unit: NT\$K

Description \ Year	Financial information for recent five years					The year ended March 31, 2018 Financial information (Note 1)
	2017	2016	2015	2014	2013	
Operating profit and loss	11,346,419	11,893,266	17,120,807	17,093,170	15,706,163	—
Non-operating income and expenses	2,544,133	1,975,732	3,816,860	2,808,453	2,169,267	—
Net profit (loss) before tax	1,275,875	675,215	2,401,993	1,710,820	918,773	—
Continued operation units Net profits for the period	543,075	(741,654)	139,706	1,149,072	1,772,179	—
Loss out of business suspension units	1,818,950	(66,439)	2,541,699	2,859,892	2,690,952	—
Net profits (loss) for current period	1,619,126	(129,503)	2,427,083	3,068,346	2,538,071	—
Other comprehensive profit and loss for current period (Net values after tax)	—	—	—	—	—	—
Total comprehensive profit and loss for current period	1,619,126	(129,503)	2,427,083	3,068,346	2,538,071	—
Net profits attributable to owner of parent company	(655,952)	(171,044)	300,818	509,897	106,299	—
Net profits attributable to non-controlling rights and interests	963,174	(300,547)	2,727,901	3,578,243	2,644,370	—
Total integrated profit and loss attributable to owners of parent company	—	—	—	—	—	—
Total integrated profit and loss attributable to non-controlling rights and interests	—	—	—	—	—	—
Earnings (Loss) per share (NT\$)	—	—	—	—	—	—
Operating profit and loss	—	—	—	—	—	—
Non-operating income and expenses	1.65	(0.13)	2.48	3.13	2.59	—

Note 1: The consolidated financial report in 2018 and ended in March 31 was examined by the accountant.

Note 2: The finance statements from 2013 to 2017 were all attested by independent auditors.

Note 3: Loss from discontinued business is to be used to reduce the listed net profit after tax of the Company.

**(II) Certified public accountants and audit opinions**

Year	Certified public accountants	Names of certified public accountants	Audit opinions
2013	Deloitte & Touche	Wang Yiwen and Fan Youwei	Revised without reservation
2014	Deloitte & Touche	Wang Yiwen and Fan Youwei	Revised without reservation
2015	Deloitte & Touche	Wang Yiwen and Fan Youwei	Revised without reservation
2016	Deloitte & Touche	Wang Yiwen and Kuo Wenji	Without reservation
2017	KPMG	Tseng Kuoyang and Lin Hengsheng	Without reservation

## II. Financial Analysis over the Recent Five Years

### (I) Financial analysis:

#### 1. Financial analysis (consolidated)

Analysis items (Note 3)		Financial Analysis over the Recent Five Years					The year ended March 31, 2018 (Note 1)
		2017	2016	2015	2014	2013	
Financial structure (%)	Liabilities to assets ratio	34.68	34.03	34.20	25.68	23.68	34.42
	long-term capital fixed assets ratio	530.58	280.47	287.35	192.46	164.17	542.13
Debt paying ability (%)	Current ratio	635.91	910.75	840.49	179.10	239.14	573.72
	Quick ratio	537.18	789.23	721.56	104.83	126.52	495.66
	Interests coverage ratio	330,560.00	-199.03	4,945.48	24,512.24	47,776.49	484,586.91
Operation capability	Receivables turnover rate (times)	7.20	6.48	5.83	5.64	5.62	2.06
	Average number of days of cash receipt	51	56	63	65	65	177
	Inventory turnover rate (times)	4.97	5.15	4.66	4.17	3.7	1.45
	Payables turnover rate (times)	8.53	9.73	12.29	18.31	28.83	2.09
	Average number of days of goods sale	73	71	78	88	99	252
	Turnover rate (times) of real estate, plant and equipment	0.57	0.45	0.57	0.49	0.42	0.23
	Total asset turnover rate (times)	0.15	0.15	0.23	0.26	0.24	0.04
Profitability	Asset return rate (%)	2.13	-0.15	3.23	4.53	3.82	0.56
	Shareholders' equity return rate (%)	3.26	-0.25	4.60	5.94	5	0.85
	Paid-up capital ratio (%) : Net income before tax	18.71	-0.21	25.71	29.05	26.85	5.28
	Net income rate (%)	13.88	-1.05	13.87	17.52	15.84	13.42
	Earning per share (NT\$)	1.65	-0.13	2.48	3.13	2.59	0.43
Cash flow	Cash flow ratio (%)	116.46	97.43	876.81	-10.27	129.73	38.50
	Cash flow fair ratio (%)	142.29	134.18	137.21	45.80	71.38	156.20
	Cash re-investment ratio (%)	0.70	-0.53	21.73	-3.82	2.83	1.28
Leverage	Operation leverage	3.76	7.52	3.14	3.70	5.05	4.49
	Financial leverage	1	1	1	1	1	1

The changes in financial ratios over the past 2 fiscal years:

1. The decrease in the current ratio was primarily a result of the decrease in other financial assets in 2017.
2. The decrease in the quick ratio was primarily a result of the decrease in other financial assets in 2017.
3. The increase in the interest coverage ratio was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
4. The increase in the turnover of property, plants and equipment was primarily a result of the reclassification of property, plants, and equipment to investment-based property due to completion of certain land renewals and changes of the planning in 2017.
5. The increase in ROA was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
6. The increase in ROE was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
7. The increase in income before tax to paid-in capital was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
8. The increase in the net profit margin was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
9. The increase in earnings per share was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
10. The increase in the cash reinvestment ratio was primarily a result of the increase in the cash inflow from operating activities and decreases in the property, plants, and equipment upon reclassification of the same in 2017.
11. The decrease in operating leverage was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.

## 2. Financial analysis (individual)

Analysis items (Note 3)		Financial Analysis over the Recent Five Years					The year ended March 31, 2018 (Note 1)
		2017	2016	2015	2014	2013	
Financial structure (%)	Liabilities to assets ratio	34.62	33.95	34.16	25.62	23.41	—
	long-term capital fixed assets ratio	534.64	281.89	290.71	194.43	165.56	—
Debt paying ability (%)	Current ratio	629.34	950.17	847.11	176.69	248.13	—
	Quick ratio	529.83	826.30	729.53	103.53	129.86	—
	Interests coverage ratio	45,473,850.00	-890.00	5,003.19	25,685.98	No interest expenses	—
Operation capability	Receivables turnover rate (times)	7.05	6.34	5.73	5.55	5.55	—
	Average number of days of cash receipt	52	58	64	66	66	—
	Inventory turnover rate (times)	5.00	5.18	4.69	4.17	3.68	—
	Payables turnover rate (times)	8.41	9.57	12.21	18.48	29.70	—
	Average number of days of goods sale	73	70	78	88	99	—
	Turnover rate (times) of real estate, plant and equipment	0.56	0.44	0.56	0.48	0.41	—
	Total asset turnover rate (times)	0.15	0.15	0.22	0.25	0.24	—
Profitability	Asset return rate (%)	2.14	-0.15	3.23	4.55	3.82	—
	Shareholders' equity return rate (%)	3.26	-0.25	4.60	5.95	5	—
	Paid-up capital ratio (%) : Net income before tax	18.56	-0.67	25.93	29.18	27.46	—
	Net income rate (%)	14.26	-1.08	14.17	17.95	16.16	—
	Earning per share (NT\$)	1.65	-0.13	2.48	3.13	2.59	—
Cash flow	Cash flow ratio (%)	119.16	104.01	895.47	(9.94)	140.50	—
	Cash flow fair ratio (%)	142.19	134.37	137.27	46.08	71.18	—
	Cash re-investment ratio (%)	0.68	-0.53	21.73	(3.79)	2.90	—
Leverage	Operation leverage	3.38	6.12	2.91	3.35	4.00	—
	Financial leverage	1	1	1	1	1	—

The changes in financial ratios over the past 2 fiscal years:

1. The increase in long-term funding to property, plants, and equipment was primarily a result of the reclassification of property, plants, and equipment to investment-based property due to completion of certain land renewals and changes of the planning in 2017.
2. The decrease in the current ratio was primarily a result of the decrease in other financial assets in 2017.
3. The decrease in the quick ratio was primarily a result of the decrease in other financial assets in 2017.
4. The increase in the interest coverage ratio was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
5. The increase in the turnover of property, plants and equipment was primarily a result of the reclassification of property, plants, and equipment to investment-based property due to completion of certain land renewals and changes of the planning in 2017.
6. The increase in ROA was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
7. The increase in ROE was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
8. The increase in income before tax to paid-in capital was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
9. The increase in the net profit margin was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
10. The increase in earnings per share was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.
11. The increase in the cash reinvestment ratio was primarily a result of the increase in the cash inflow from operating activities and decreases in the property, plants, and equipment upon reclassification of the same in 2017.
12. The decrease in operating leverage was primarily a result of the increase in the current net profit resulting from the niche products released by the core business, fertilizer and chemical engineering, and integration of energy from the Taichung Plant in 2017.

Note 1: The consolidated financial statements for the quarter ended on March 31, 2018 were reviewed by independent auditors but the unconsolidated financial statements were not reviewed by independent auditors.

Note 2: The financial statements from 2013 to 2017 were all attested by independent auditors.

Note 3: Calculation formula for analysis items:

1. Financial structure
  - (1) Liabilities to assets ratio = total liabilities / total assets.
  - (2) Long-term capital to fixed assets ratio, plant to equipment ratio = (total equity + non-current liabilities) / net value of real estate, plant and equipment.
2. Debt paying ability
  - (1) Current ratio = current assets / current liabilities.
  - (2) Quick ratio = (Current assets – inventory – prepaid expenses) / current liabilities. (including inventory and construction work in progress).
  - (3) Interest coverage = Net income before income tax and interest expenses / interest expenses for the current period.
3. Operation capability
  - (1) Receivable (including accounts receivable and bills receivable arising from business operation) turnover rate = Net sales of goods / Average receivables for different periods (including balance of accounts receivable and bills receivable arising from business operation).
  - (2) Average number of days of cash receipt = 365 / Receivables turnover rate.
  - (3) Inventory turnover rate = goods sale costs / average inventory (including inventory and construction work in progress).
  - (4) Payable (including accounts payable and bills payable arising from business operation) turnover rate = balance of goods sale costs / average payables for different period (including accounts payable and bills payable arising from business operation).
  - (5) Average number of days of goods sale = 365 / inventory turnover rate.
  - (6) Turnover rate of real estate, plant and equipment = Net sales of goods / net values of average real estate, plant and equipment.
  - (7) Total asset turnover rate = Net sales of goods / total average assets.
4. Profitability
  - (1) Asset return rate = (Profit and loss after tax + interest expenses × (1 – tax rate)) / average total assets.
  - (2) Shareholders' equity return rate = Profit and loss after tax / net average shareholders' equity.
  - (3) Net income rate = Profit and loss after tax / Net sales of goods.
  - (4) Earning per share = (Net profit after tax – special share dividends) / Weighted average number of shares issued.
5. Cash flow
  - (1) Cash flow ratio = net cash flow due to operating activities / current liabilities.
  - (2) Net cash flow fair ratio = Net cash flow from operating activities over the current five years / increase in (capital expenses + increase in inventory + cash dividends) for the current five years + cash dividends).
  - (3) Cash re-investment ratio = (net cash flow due to operating activities – cash dividends) / (Gross fixed assets + long-term investment + other assets + Operating capital).
6. Leverage
  - (1) Operation leverage = (Net operating income – variable operating costs and expenses) / operating interest.
  - (2) Financial leverage = operating interest / (operating interest – interest expenses).

### III. Auditing Report by Supervisors on Financial Statements over the Recent Years

Auditing Report by Supervisors of Taiwan Fertilizer Co., Ltd

The Company's 2017 business report, financial statements and statement of earnings distribution were submitted by the Company's Board of Directors. The financial statements were already audited by Tseng Kuoyang, CPA and Lin Hengsheng, CPA of KPMG, who also issued the auditor report accordingly.

The foregoing Business Report, Financial Statement and Retained Earning Distribution Proposal have been reviewed and audited by the supervisors. It is believed that they comply with relevant regulations of the Company Act and they were reported above subject to the provisions set out in Article 219 of the Company Act.

General Meeting of Shareholders for 2018 of the Company

Supervisors:

Chung Hwa Post Co., Ltd.

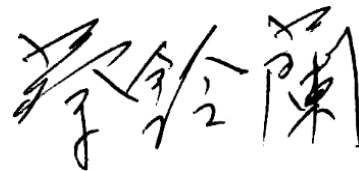
Representative: Lin Chihlung



Chen Tsailai



Tsai Linglan



March 29, 2018

## IV. Financial Statements over the Recent Years

### Independent Auditors' Report

To the Board of Directors of Taiwan Fertilizer Co., Ltd.:

#### Opinion

We have audited the consolidated financial statements of Taiwan Fertilizer Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the consolidated statement of comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 and 2016, 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 (refer to the Other Matters paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

#### Basis for Opinion

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. 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. The key audit matters that, in our professional judgment, should be communicated are as follows:

Key audit matters:

As described in Note 6(i) of the consolidated financial statements, the Group acquired control over Taiwan Yes Deep Ocean Water Co., Ltd. (“Taiwan Yes”) on January 7, 2013, which was accounted for as acquisition using the equity method (including the goodwill and trademark with indefinite useful lives). In accordance with IAS 36 “Impairment of Assets”, goodwill and intangible assets with indefinite useful lives should be tested for impairment annually; and based on the estimated future cash flows of Taiwan Yes (the cash-generating unit), the recoverable amount was evaluated in order to determine whether there is any impairment of the aforementioned investment accounted for by using the equity method (including the goodwill and intangible assets with indefinite useful lives). Since the estimated future cash flows requires management’s forecasting of the industry overview and the future operating performance of Taiwan Yes, should the situation change, the recoverable amount will be affected and an impairment loss will be incurred. Therefore, the impairment assessment of equity-method investments has been identified as a key audit matter.

How the matter was addressed in our audit:

Our principal audit procedures included confirming whether the management have properly assessed the recoverability of goodwill based on the forecasted cash flows within the following 5 years, wherein the assessment have been reviewed by the competent authority; and verifying whether the management has disclosed the impairment of goodwill in the financial statements on a timely manner after identifying such circumstance. In addition, we also assessed the adequacy of the forecasting methods and the discount rate used by the management, and compared the discount rate with external information; verified the management’s assumptions with external relevant information, and evaluated the major assumptions (including the forecast revenue growth rate, discount rate and forecast margin).

**Other Matter**

We did not audit the consolidated financial statements as of and for the years ended December 31, 2017 of certain investees, but such financial statements had been audited by other auditors, whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included in the Corporation’s consolidated financial statements for these investees, is based solely on the reports of the other auditors. As of December 31, 2017, the investments in the aforementioned investees is 12.69% (NT\$9,538,520 thousand), of the Corporation’s total assets. For the years ended December 31, 2017, the investment income on the above said investees is 33.96% (NT\$622,846 thousand) of the Corporation’s income before income tax.

The consolidated financial statements of the Group for the year ended December 31, 2016 were audited by other auditors, and an auditors’ report with unqualified opinion was issued on March 28, 2017. As stated in 4(u), since the previous financial statements of certain associates accounted for using equity method were not prepared in accordance with the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations (together referred to as “IFRSs”), the investments accounted for using equity method had decreased by \$601,263 and \$502,589; respectively, the deferred income tax liabilities had reduced by \$102,215 and \$85,440; the retained earnings had reduced by \$474,024 and \$417,317; other equities interest had reduced by \$25,024 and increased by \$169 as of January 1 and December 31, 2017, respectively. In addition, the share of profit of associates and joint ventures accounted for using equity method had increased by \$68,321, the income tax expenses had increased by NT\$11,615; the exchange differences on translation of foreign operations had increased by \$30,353; income tax in relation to the items that may be reclassified subsequently to profit or loss had decreased by 5,160, for the year ended December 31, 2016. The Group has amended its non-consolidated financial statements for the year ended December 31, 2016. The former auditor, however, has not signed the auditor's report after the amendment of the non-consolidated financial statements. We have reviewed the adjusting entries through necessary procedures. In our opinion, the adjusting entries are reasonable and are entered properly.

We also audited the financial statements of Taiwan Fertilizer Group Limited as of and for the

years ended December 31, 2016 and 2015 and have issued an unqualified and a modified unqualified audit report, respectively, thereon.

### **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 Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed 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 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 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 Kuo-Yang Tseng and .  
KPMG

Taipei, Taiwan (Republic of China)

March 29, 2018

#### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its 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 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 auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

Assets		December 31, 2017		December 31, 2016		January 1, 2016		Liabilities and Equity		December 31, 2017		December 31, 2016		January 1, 2016	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
<b>Current assets:</b>								<b>Current liabilities:</b>							
1100	Cash and cash equivalents(note)	\$ 2,266,220	3	1,084,835	1	2,474,406	3	2100	Short-term borrowings(note)	\$ 35,000	-	46,000	-	10,000	-
1125	Current available-for-sale financial assets, net(note)	2,182,015	3	3,246,512	4	8,729,292	11	2150	Notes payable(note)	458	-	6,924	-	2,214	-
1150	Notes receivable, net(note)	31,848	-	366,324	1	432,891	1	2170	Accounts payable(note)	1,218,032	2	897,834	1	1,196,312	2
1170	Accounts receivable, net(note)	1,533,348	2	1,305,881	2	1,671,883	2	2200	Other payables(note)	556,010	1	504,629	1	758,177	1
1220	Current tax assets(note)	6	-	-	-	256,153	-	2230	Current tax liabilities(note)	127,276	-	7,975	-	16,339	-
1200	Other receivables, net(note)	31,373	-	11,925	-	1,673	-	2310	Advance receipts(note)	241,964	-	180,763	-	203,781	-
130X	Inventories(note)	1,839,122	2	1,801,599	3	2,174,707	3	2399	Other current liabilities, others(note)	53,126	-	35,937	-	61,901	-
1410	Prepayments(note)	364,416	-	240,051	-	499,591	1			<u>2,231,866</u>	<u>3</u>	<u>1,680,062</u>	<u>2</u>	<u>2,248,724</u>	<u>3</u>
1476	Other current financial assets(note)	5,918,160	8	7,237,898	9	2,628,202	3	<b>Non-Current liabilities:</b>							
1479	Other current assets, others(note)	26,315	-	6,281	-	31,547	-	2550	Non-current provisions(note)	223,648	-	223,648	-	327,750	-
		<u>14,192,823</u>	<u>18</u>	<u>15,301,306</u>	<u>20</u>	<u>18,900,345</u>	<u>24</u>	2570	Deferred tax liabilities(note)	7,014,086	9	7,129,097	9	7,191,083	9
<b>Non-current assets:</b>								2630	Long-term deferred revenue(note)	16,173,803	22	16,584,651	22	16,977,124	21
1523	Non-current available-for-sale financial assets, net(note)	29,531	-	-	-	-	-	2640	Net defined benefit liability, non-current(note)	112,063	-	94,353	-	468,040	1
1543	Non-current financial assets at cost, net(note)	546,899	1	449,582	1	495,041	1	2645	Guarantee deposits received(note)	308,973	-	316,124	1	221,009	-
1550	Investments accounted for using equity method, net(note)	9,612,678	13	10,393,762	14	10,751,664	13			<u>23,832,573</u>	<u>31</u>	<u>24,347,873</u>	<u>32</u>	<u>25,185,006</u>	<u>31</u>
1600	Property, plant and equipment(note)	13,744,278	19	26,753,401	35	27,232,915	34		<b>Total liabilities</b>	<u>26,064,439</u>	<u>34</u>	<u>26,027,935</u>	<u>34</u>	<u>27,433,730</u>	<u>34</u>
1760	Investment property, net(note)	34,920,398	47	21,157,600	28	19,773,984	24	<b>Equity attributable to owners of parent:</b>							
1780	Intangible assets(note)	234,595	-	257,986	-	471,995	1	<b>Share capital:</b>							
1840	Deferred tax assets(note)	209,017	-	209,113	-	358,990	-	3100	Capital stock(note)	9,800,000	13	9,800,000	13	9,800,000	12
1930	Long-term notes and accounts receivable, net(note)	313,860	-	385,490	-	540,884	1	<b>Capital surplus:</b>							
1980	Other non-current financial assets(note)	52,382	-	65,800	-	65,800	-	3200	Capital surplus(note)	2,232,791	3	2,232,791	3	2,237,678	3
1985	Long-term prepaid rents(note)	1,180,739	2	1,215,950	2	1,286,561	2	<b>Retained earnings:</b>							
1990	Other non-current assets, others(note)	119,691	-	25,223	-	24,363	-	3310	Legal reserve(note)	3,683,109	5	3,683,109	5	3,440,401	4
		<u>60,964,068</u>	<u>82</u>	<u>60,913,907</u>	<u>80</u>	<u>61,002,197</u>	<u>76</u>	3320	Special reserve(note)	31,449,960	42	33,590,309	44	33,590,944	42
								3350	Total unappropriated retained earnings (accumulated deficit)(note)	1,961,271	3	286,015	-	2,672,036	4
								<b>Other equity interest:</b>							
								3400	Other equity interest(note)	(34,679)	-	595,054	1	727,753	1
										<u>49,092,452</u>	<u>66</u>	<u>50,187,278</u>	<u>66</u>	<u>52,468,812</u>	<u>66</u>
									<b>Total equity</b>	<u>49,092,452</u>	<u>66</u>	<u>50,187,278</u>	<u>66</u>	<u>52,468,812</u>	<u>66</u>
<b>Total assets</b>		<u>\$ 75,156,891</u>	<u>100</u>	<u>76,215,213</u>	<u>100</u>	<u>79,902,542</u>	<u>100</u>	<b>Total liabilities and equity</b>		<u>\$ 75,156,891</u>	<u>100</u>	<u>76,215,213</u>	<u>100</u>	<u>79,902,542</u>	<u>100</u>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

	2017		2016		
	Amount	%	Amount	%	
4000	Operating revenue	\$ 11,658,986	100	12,240,920	100
5000	Operating costs(note)	9,057,761	78	10,234,666	84
5900	<b>Gross profit (loss) from operations</b>	<u>2,601,225</u>	<u>22</u>	<u>2,006,254</u>	<u>16</u>
	<b>Operating expenses:</b>				
6100	Selling expenses(note)	269,381	2	338,576	3
6200	Administrative expenses(note)	1,021,639	9	1,006,693	8
6300	Research and development expenses(note)	82,267	1	65,291	-
	<b>Total operating expenses</b>	<u>1,373,287</u>	<u>12</u>	<u>1,410,560</u>	<u>11</u>
6900	<b>Net operating income (loss)</b>	<u>1,227,938</u>	<u>10</u>	<u>595,694</u>	<u>5</u>
	<b>Non-operating income and expenses:</b>				
7010	Total other income	198,553	2	168,317	1
7020	Other gains and losses, net	(208,886)	(2)	(522,467)	(4)
7050	Finance costs, net	(555)	-	(7,029)	-
7060	Share of profit (loss) of associates and joint ventures accounted for using equity method, net	617,003	6	(187,213)	(2)
	<b>Total non-operating income and expenses</b>	<u>606,115</u>	<u>6</u>	<u>(548,392)</u>	<u>(5)</u>
7900	<b>Profit (loss) from continuing operations before tax</b>	<u>1,834,053</u>	<u>16</u>	<u>47,302</u>	<u>-</u>
7950	Less: Tax income (expense)	214,927	2	120,099	1
	<b>Profit (loss)</b>	<u>1,619,126</u>	<u>14</u>	<u>(72,797)</u>	<u>(1)</u>
8300	<b>Other comprehensive income:</b>				
8310	<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>				
8311	Gains (losses) on remeasurements of defined benefit plans	(39,159)	-	(15,845)	-
8320	Share 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	6,282	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6,658	-	2,694	-
		<u>(26,219)</u>	<u>-</u>	<u>(13,151)</u>	<u>-</u>
8360	<b>Other components of other comprehensive income that will not be reclassified to profit or loss</b>				
8361	Exchange differences on translation	(5,522)	-	(13,652)	-
8362	Unrealised gains (losses) on valuation of available-for-sale financial assets	49,729	-	20,580	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(812,515)	(7)	(168,359)	(1)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	138,575	1	28,732	-
	Components of other comprehensive income that will be reclassified to profit or loss	<u>(629,733)</u>	<u>(6)</u>	<u>(132,699)</u>	<u>(1)</u>
8300	<b>Other comprehensive income, net</b>	<u>(655,952)</u>	<u>(6)</u>	<u>(145,850)</u>	<u>(1)</u>
	<b>Total comprehensive income</b>	<u>\$ 963,174</u>	<u>8</u>	<u>(218,647)</u>	<u>(2)</u>
	<b>Profit (loss), attributable to:</b>				
	Profit (loss), attributable to owners of parent	<u>\$ 1,619,126</u>	<u>14</u>	<u>(72,797)</u>	<u>(1)</u>
	<b>Comprehensive income attributable to:</b>				
	Comprehensive income, attributable to owners of parent	<u>\$ 963,174</u>	<u>8</u>	<u>(218,647)</u>	<u>(2)</u>
	<b>Basic earnings per share</b>				
	Basic earnings per share	<u>\$ 1.65</u>		<u>(0.07)</u>	
	Diluted earnings per share	<u>\$ 1.65</u>		<u>(0.07)</u>	

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2017 and 2016**

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent						Total other equity interest			
	Share capital		Retained earnings				Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings				
<b>Balance at January 1, 2016</b>	\$ 9,800,000	2,237,678	3,440,401	33,590,944	3,146,060	40,177,405	710,438	42,339	752,777	52,967,860
Effects of retrospective application and retrospective restatement	-	-	-	-	(474,024)	(474,024)	(25,024)	-	(25,024)	(499,048)
Equity at beginning of period after adjustments	9,800,000	2,237,678	3,440,401	33,590,944	2,672,036	39,703,381	685,414	42,339	727,753	52,468,812
Profit (loss)	-	-	-	-	(72,797)	(72,797)	-	-	-	(72,797)
Other comprehensive income	-	-	-	-	(13,151)	(13,151)	(153,279)	20,580	(132,699)	(145,850)
Total comprehensive income	-	-	-	-	(85,948)	(85,948)	(153,279)	20,580	(132,699)	(218,647)
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	242,708	-	(242,708)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(2,058,000)	(2,058,000)	-	-	-	(2,058,000)
Reversal of special reserve	-	-	-	(635)	635	-	-	-	-	-
Due to donated assets received	-	(4,887)	-	-	-	-	-	-	-	(4,887)
Balance at December 31, 2016	9,800,000	2,232,791	3,683,109	33,590,309	286,015	37,559,433	532,135	62,919	595,054	50,187,278
Effects of retrospective application and retrospective restatement	9,800,000	2,232,791	3,683,109	33,590,309	703,332	37,976,750	531,966	62,919	594,885	50,604,426
Retrospective adjustment of equity attributable to former owner due to reorganization of entities under common control	-	-	-	-	(417,317)	(417,317)	169	-	169	(417,148)
Equity at beginning of period after adjustments	19,600,000	4,465,582	7,366,218	67,180,618	572,030	75,118,866	1,064,270	125,838	1,190,108	100,374,556
Profit (loss)	-	-	-	-	1,619,126	1,619,126	-	-	-	1,619,126
Other comprehensive income	-	-	-	-	(26,219)	(26,219)	(679,462)	49,729	(629,733)	(655,952)
Total comprehensive income	-	-	-	-	1,592,907	1,592,907	(679,462)	49,729	(629,733)	963,174
Appropriation and distribution of retained earnings:										
Cash dividends of ordinary share	-	-	-	-	(2,058,000)	(2,058,000)	-	-	-	(2,058,000)
Special reserve used to offset accumulated deficits	-	-	-	(2,030,304)	2,030,304	-	-	-	-	-
Reversal of special reserve	-	-	-	(110,045)	110,045	-	-	-	-	-
Due to business combination	-	-	-	-	-	-	-	-	-	-
Due to donated assets received	-	-	-	-	-	-	-	-	-	-
Changes in equity of associates and joint ventures accounted for using equity method	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-
<b>Balance at December 31, 2017</b>	<b>\$ 19,600,000</b>	<b>4,465,582</b>	<b>7,366,218</b>	<b>65,040,269</b>	<b>2,247,286</b>	<b>74,653,773</b>	<b>384,808</b>	<b>175,567</b>	<b>560,375</b>	<b>99,279,730</b>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from (used in) operating activities:</b>		
<b>Profit (loss) before tax</b>	\$ 1,834,053	47,302
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	732,513	709,759
Amortization expense	84,560	83,990
Interest expense	555	7,029
Interest income	(83,575)	(62,445)
Dividend income	(43,562)	(41,782)
(Reversal of) write-down of inventories	-	(6,157)
Share of loss (profit) of associates and joint ventures accounted for using equity method	(617,004)	187,213
Loss (gain) on disposal of property, plan and equipment	(79,371)	(3,584)
Loss (gain) on disposal of investment properties	24,569	-
Loss (gain) on disposal of investments	(21,788)	(23,381)
Loss (gain) on disposal of investments accounted for using equity method	(24,562)	-
Impairment loss on financial assets	-	15,000
Reversal of impairment loss on financial assets	-	4,294
Impairment loss on non-financial assets	31,715	342,101
Unrealized foreign exchange loss (gain)	26,625	(13,570)
Donation expenses	241,381	-
Property, plan and equipment	8,731	-
Investment properties transferred to expenses	861	-
<b>Total adjustments to reconcile profit (loss)</b>	<b>281,648</b>	<b>1,198,467</b>
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in notes receivable	334,476	66,567
Decrease (increase) in accounts receivable	(227,467)	361,582
Decrease (increase) in other receivable	(18,966)	(78,752)
Decrease (increase) in inventories	(37,523)	582,646
Decrease (increase) in prepayments	(117,981)	-
Decrease (increase) in other financial assets	(23,246)	175,338
Decrease (increase) in deferred debits	71,630	155,394
<b>Total changes in operating assets</b>	<b>(19,077)</b>	<b>1,262,775</b>
Increase (decrease) in notes payable	(6,466)	4,710
Increase (decrease) in accounts payable	320,198	(490,616)
Increase (decrease) in other payable	54,004	140,889

Increase (decrease) in provisions	-	(38,370)
Increase (decrease) in receipts in advance	61,201	(23,018)
Increase (decrease) in other current liabilities	17,189	(25,964)
Increase (decrease) in net defined benefit liability	(21,449)	(389,532)
Increase (decrease) in deferred credits	(410,848)	(392,473)
<b>Total changes in operating liabilities</b>	<u>13,829</u>	<u>(1,214,374)</u>
<b>Total changes in operating assets and liabilities</b>	<u>(5,248)</u>	<u>48,401</u>
<b>Total adjustments</b>	<u>276,400</u>	<u>1,246,868</u>
Cash inflow (outflow) generated from operations	2,110,453	1,294,170
Interest received	83,124	61,193
Dividends received	474,035	41,782
Interest paid	(555)	(7,029)
Dividends paid	-	246,935
Income taxes refund (paid)	(67,701)	-
<b>Net cash flows from (used in) operating activities</b>	<u>2,599,356</u>	<u>1,637,051</u>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Cash Flows (CONT'D)**

**For the years ended December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of available-for-sale financial assets	(2,205,306)	(84,772)
Proceeds from disposal of available-for-sale financial assets	3,311,788	5,606,626
Acquisition of financial assets at cost	(150,000)	-
Proceeds from capital reduction of financial assets at cost	52,683	32,790
Acquisition of property, plant and equipment	(449,306)	(752,620)
Proceeds from disposal of property, plant and equipment	132,266	9,959
Decrease in refundable deposits	(96,048)	(860)
Acquisition of intangible assets	-	(5,558)
Acquisition of investment properties	(1,293,562)	(1,291,949)
Proceeds from disposal of investment properties	68,471	-
Decrease in other financial assets	1,333,156	(4,609,696)
Other investing activities	(40,100)	-
<b>Net cash flows from (used in) investing activities</b>	<b>664,042</b>	<b>(1,096,080)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	(11,000)	36,000
Increase in guarantee deposits received	(7,151)	95,115
Cash dividends paid	(2,058,000)	(2,058,000)
<b>Net cash flows from (used in) financing activities</b>	<b>(2,076,151)</b>	<b>(1,926,885)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(5,862)</b>	<b>(3,657)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,181,385</b>	<b>(1,389,571)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,084,835</b>	<b>2,474,406</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,266,220</b>	<b>1,084,835</b>

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2017 and 2016**

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

**(1) Company history**

TAIWAN FERTILIZER CO., LTD. (the “Company”) was incorporated in May 1946. The Company’s registered office address is located at 6F, No. 88, Nanjing E. Rd., Sec.2, Taipei, 10457, Taiwan. The Company and its subsidiaries (together referred to as the “Group”) manufactures and sells inorganic and organic fertilizers and other chemical products. The Group also constructs and leases real estate property. The Group’s shares has been listed on the Taiwan Stock Exchange since March 24, 1998.

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

The non-consolidated financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors on March 29, 2018.

**(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, 2017:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Presentation of Financial Statements-Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendments to IAS 36 “Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets”	January 1, 2014
Amendments to IAS 39 “Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

(i) Amendments to IAS 36 “Recoverable Amount Disclosures for Non Financial Assets”

Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. In such cases, the amendments also require that the following be disclosed if the recoverable amount is based on fair value, less costs of disposal:

- 1) the level of the fair value hierarchy within which the fair value measurement is categorized; and
- 2) the valuation technique(s) used for fair value measurements categorized within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made.

The Group will include the required disclosures.

(ii) The annual improvement cycles 2010-2012 and 2011-2013, amendments to IFRS 3 “Business Combinations”

This amendment clarifies the classification and measurement of contingent consideration in a business combination. The Group has changed its accounting policy in accordance with this standard.

(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, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Group can, and therefore, elected to early adopt the amendments to IFRS 9 “Prepayment features with negative compensation”:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Group had equity investments classified as available-for-sale with a fair value of 2,211,546 thousand and financial assets measured at cost of 546,899 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in a decrease of 105,054 thousand in the reserves, as well as the increase of 105,054 thousand and 0 thousand in retained earnings and non-controlling interests, respectively.

#### 2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Group estimated the application of IFRS 9's impairment requirements on January 1, 2018 resulting in the increase of 0 thousand and 0 thousand in the allowance for impairment and reserves, as well as the decrease of 0 thousand and 0 thousand in retained earnings and non-controlling interests, respectively.

#### 3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

#### 4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The new hedge accounting requirements should generally be applied prospectively. However, the Group has decided to apply the accounting for the forward element of forward contracts retrospectively.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

#### (ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

The Group has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

#### 1) Sales of goods

For the sale of A products, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. For some made-to-order paper product contracts, the customer controls all of the work in progress as the products are being manufactured. When this is the case, revenue will be recognized as the products are being manufactured. This will result in revenue, and some associated costs, for these contracts being recognized earlier than at present – i.e. before the goods are delivered to the customers' premises.

For certain contracts that permit a customer to return an item, revenue is currently recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. Otherwise, a revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the statement of financial position.

For the loyalty program operated by the Group, revenue is currently allocated between the loyalty program and A products using the residual value method. Consideration is allocated to the loyalty program based on their fair value, and the remainder of the consideration is allocated to A products. The amount allocated to the loyalty program is deferred, and is recognized when the loyalty points are redeemed or expire. Under IFRS 15, consideration will be allocated between the loyalty program and A products based on their relative stand-alone selling prices. As a consequence, a lower proportion of the consideration will be allocated to the loyalty program, and therefore, less revenue is likely to be deferred.

#### 2) Advance Real Estate Receipts

As of advance receipts, the current guidelines do not stipulate whether there is any interest needs for them to be calculated. Under International Financial Reporting Standard No. 15 , it is stipulated that advance receipts should be assessed as to whether there is a significant financial component in order to adjust the amount of the promised consideration to reflect the impact of the time value

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

of money.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(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 IASB, but not yet endorsed by the FSC:

<b><u>New, Revised or Amended Standards and Interpretations</u></b>	<b><u>Effective date per IASB</u></b>
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 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
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 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

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

<b><u>Issuance / Release Dates</u></b>	<b><u>Standards or Interpretations</u></b>	<b><u>Content of amendment</u></b>
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 amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the 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.
January 13, 2016	IFRS 16 “Leases”	The new standard of accounting for lease is amended as follows: <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right of use</li> </ul>

# TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

		<p>asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term.</p> <ul style="list-style-type: none"><li>• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li></ul>
October 12, 2017	Amendments to IAS 28 “Long-term interests in associates and joint ventures”	The amendment to IAS 28, which addresses equity-accounted loss absorption by long-term interests, will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or ‘LTI’). It also involves the dual application of IAS 28 and IFRS 9 Financial Instruments.

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

#### (4) Summary of significant accounting policies:

The following significant accounting policies have been applied consistently to all periods presented in the non-consolidated financial statements.

##### (a) Statement of compliance

The non consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

##### (b) Basis of Preparation

###### (i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- 2) Available-for-sale financial assets are measured at fair value; and
- 3) The net defined benefit liability is recognized as the present value of the defined

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

benefit less the fair value of plan assets.

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The non-consolidated financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar 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 Group and its subsidiaries. The Group has control over an investee if and only if it has exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of its returns.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra group transactions and balances, and any unrealized income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements. Losses applicable to the controlling interests in a subsidiary are allocated to the ownership of the parent Group and non controlling interests, even if doing so causes the non controlling interests to have a deficit balance.

Adjustments for financial statements of subsidiaries have been made, and their accounting policies are in accord with the Group's.

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. The difference between adjustment for the non controlling interest and the fair value of consideration received or paid is directly recognized in equity attributable to the owner.

When the Group loses control of a subsidiary it derecognizes the assets and liabilities and related equity components of the former subsidiary (included goodwill). Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. A gain or loss is recognized in profit or loss and is calculated as the difference between: a. the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and b. the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any noncontrolling interest. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss or transferred directly to retained earnings as appropriate, on the same basis as would be

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

required.

(ii) List of subsidiaries included in the consolidated financial statements:

Investor	Subsidiary	Nature of business	Shareholding ratio			Description
			December 31, 2017	December 31, 2016	January 1, 2016	
The Group	Taifer Chemicals International Inc.	International trade, wholesale of fertilizer, real estate rental or leasing and gas station	100%	100%	100%	-
The Group	MITAGRI Co., Ltd.	Wholesale and retail sale of cosmetics and biotechnology services	33.33%	100%	100%	Note
The Group	TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	Investment and holding	100%	100%	100%	-
The Group	Taiwan Yes Deep Ocean Water Co., Ltd.	Wholesale of drinks, food and grocery	100%	100%	100%	-
The Group	TAIFER (CAMBODIA) CO., LTD.	International trade and wholesale of fertilizer	100%	100%	100%	-
The Group	TAIFER INTERNATIONAL (SAMOA) CO., LTD.	Investment and holding	100%	100%	100%	-
The Group	PEIFENG Technology & Fertilized Co., Ltd.	Manufacture and wholesale of fertilizer	100%	- %	- %	-
Taiwan Yes Deep Ocean Water Co., Ltd.	Hasbo Biotech Co., Ltd.	Wholesale of Nonalcoholic Beverages and Cosmetics	100%	100%	100%	-
Taifer Chemicals International Inc.	TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD.	Investment and holding	100%	100%	100%	-
TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD	TAIFER CHEMICAL INTERNATIONAL CO., LTD.	Real estate rental and leasing	100%	100%	100%	-

Note: In August 2016, Taifer Biotech Co., Ltd. was renamed as Taiwan Agricultural Global Marketing Co., Ltd, and in June 28, 2017 has been renamed as MITAGRI Co., Ltd.

Since the MITAGRI Co., Ltd. implemented a cash infusion increase in July 2017, the company has not subscribed according to the proportion of shares held, resulting in the proportion of shares held down to 33.33%, in August 2017, the MITAGRI Co., Ltd. Conducted the reappointment of directors and supervisors for the provisional shareholders' meeting, it caused the Company lost control over the subsidiary, please refer to 6(e). In according with the provisions of the International Accounting Standards, the income and expenses losses that were excluded from consolidation effective in September 1, 2017.

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments during the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following accounts which are recognized in other comprehensive income:

- 1) Available-for-sale equity investment;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and are presented as exchange differences on translation of foreign financial statements in equity.

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. 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 Company disposes of any 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 non-controlling interest. When the Company disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

the foreign operation and are recognized in other comprehensive income.

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

An asset is classified as current when:

- (i) It is expected to be realized, or intended to be sold or consumed, during 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 (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- (i) It is expected to be settled during the Company in its normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It 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.

All other liabilities are classified as non-current.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are assets that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they conform to the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

(i) Financial assets

The Company classifies financial assets into the following categories: loans and receivables, and available for-sale financial assets.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 1) Availablefor sale financial assets

Availableforsale financial assets are nonderivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Availableforsale financial assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on availableforsale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and included in the nonoperating income and expenses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using tradedate accounting.

“Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured” are measured at amortized cost, and included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date when the Group’s right to receive payment is established, which in the case of quoted securities is normally the exdividend date. Such dividend income is included in the nonoperating income and expenses.

Interest income from investment in bond security is recognized in profit or loss, under other income of nonoperating income and expenses.

#### 2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, other than insignificant interest on shortterm receivables. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Interest income is recognized in profit or loss, under other income.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than the one suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

The carrying amount of a financial asset is reduced for an impairment loss, except for trade receivables, in which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off against the allowance account. Any subsequent

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

recovery from written off receivable is charged to the allowance account. Changes in the allowance accounts are recognized in profit or loss.

Reclassify the gains and impairment losses which were previously recognized in other comprehensive income to profit or loss when an impairment incurred.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment loss was recognized at the reversal date.

Impairment losses recognized on an available for sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and recoveries are recognized in profit or loss, under “other gains and losses, net”.

#### 4) Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On partial derecognition of a financial assets, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available for sale financial assets is reclassified to profit or loss, under “other gains and losses, net”.

The Company separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is charged to profit or loss.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (ii) Financial liabilities and equity instruments

##### 1) Classification of debt or equity instruments

Debt or equity instruments issued by the Company are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

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 based on amount of consideration received less the direct issuance cost.

Interest related to the financial liability is recognized in profit or loss, under nonoperating income and expense. On conversion, financial liability is reclassified to equity, without recognizing any gain or loss.

##### 2) Other financial liabilities

At initial recognition, financial liabilities not classified as heldfortrading, or designated as at fair value through profit or loss, which comprise of loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, under finance cost.

##### 3) Other financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any noncash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in “nonoperating income and expenses”

##### 4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Company has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

##### 5) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder of a loss it incurs because a specified debtor fails to pay on due date in accordance with the original or modified terms

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

of a debt instrument.

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Company is recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, these contracts are measured at the higher of (a) the amount of contractual obligation determined in accordance with IAS 37; or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

#### (h) Inventories

Inventories included Raw materials, finished goods, merchandise, and construction-in-progress—land and projects. 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.

#### (i) Subsidiaries

The subsidiaries in which the Group holds controlling interest are accounted for under equity method in the nonconsolidated financial statements. Under equity method, the net income, other comprehensive income and equity in the nonconsolidated financial statement are the same as those attributable to the owners of parent in the consolidated financial statements.

The changes in ownership of the subsidiaries are recognized as equity transaction.

#### (j) Property, plant and equipment

##### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined based on the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss, under other gains and losses.

#### (ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance is expensed as incurred.

#### (iii) Depreciation

Depreciation is calculated on the depreciable amount of an asset using the straight-line basis over its useful life. The depreciable amount of an asset is determined based on the cost less its residual value. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period is recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Buildings	33-60 years
Machine	3-40 years
Instrument equipment	3-15 years
Miscellaneous equipment	3-15 years

Item	Useful lives	Item	Useful lives
Buildings:		Machine:	
Leasehold improvements and others	3~15 years	Production equipment	3~15 years
Buildings, warehouses, storage sheds	16~60 years	Storage tanks, power transmission systems, etc.	16~40 years

Depreciation methods, useful lives, and residual values are reviewed at each annual reporting date. If expectations differ from the previous estimate, the changes are accounted for as a changes in accounting estimate.

(iv) Reclassification as investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owneroccupied to investment property.

(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 or for administrative purposes. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment property is measured at initial acquisition cost less accumulated depreciation and accumulated impairment losses. The methods for depreciating and determining the useful life and residual value of investment property are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property, bringing the investment property to the condition necessary for it to be available for use, and any borrowing cost that is eligible for capitalization.

An investment property is reclassified to property, plant and equipment at its carrying amount when the purpose of the investment property has been changed from investment to owner-occupied.

(l) Leased assets

(i) Lessor

Lease income from operating lease is recognized in profit or loss on a straightline basis over the lease term. Initial direct costs incurred in negotiating and arranging an

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

operating lease is 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 straightline 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

Other leases are accounted for operating leases and the lease assets are not recognized in the Group's nonconsolidated balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straightline 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.

Contingent rent is recognized as expense in the periods in which they are incurred.

(m) Intangible assets

(i) Other Intangible Assets

Other intangible assets that are acquired by the Group 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 expenditures, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Depreciable amount of intangible asset is calculated based on the cost of an asset less its residual values.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date when they are made available for use. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

Computer software cost	1~5 years
Patent	5~10 years

The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each financial year-end. Any change thereof is accounted for as a change in accounting estimate.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (n) Impairment – Non financial assets

The Group assesses non-financial assets for impairment (except for inventories, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount.

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value less costs to dispose and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such is deemed as an impairment loss, which is recognized immediately in profit or loss.

The Group assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss.

#### (o) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and an outflow of economic benefits is possibly 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.

#### (p) Revenue Recognition

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

##### (i) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 1) The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2) The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) The amount of revenue can be measured reliably;
- 4) It is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- 5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the sale of property in the course of ordinary activities is recognized when the construction is completed and the property is transferred to the buyer. Until such revenue is recognized, deposits and installment payments received from sales of properties are carried in the parent company only balance sheets under current liabilities.

The allowance for sales returns and discounts is based on customer complaints, historical experience, and any factors that may affect the reasonable estimation of possible sales returns and discounts, and its recognized as sales return and discount in the year of product sales.

#### (ii) Dividend and interest income

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

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

#### (q) 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.

##### (ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on (market yields of high quality corporate bonds or government bonds) bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of 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. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss immediately.

Re-measurement of net defined benefit liability (asset) (including actuarial gains, losses and the return on plan asset and changes in the effect of the asset ceiling, excluding any amounts included in net interest) is recognized in other comprehensive income (loss). The effect of re-measurement of the defined benefit plan is charged to retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and change in the present value of defined benefit obligation.

#### (iii) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for a defined benefit plan except that remeasurement is recognized in profit or loss.

#### (iv) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Group recognises expense when it can no longer withdraw an offer of termination benefits or it recognises related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after the balance sheet date shall be discounted to their present value.

(v) 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 Company 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.

(r) Income Taxes

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

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

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 not recognized for the following:

- (i) Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).
- (ii) Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred taxes are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
  - 1) levied by the same taxing authority; or

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 2) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for unused tax losses available for carry-forward, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits and deductible temporary differences are also re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized.

(s) Earnings per share

Disclosures are made of basic and diluted earnings per share attributable to ordinary equity holders of the Group. The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Group divided by weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Group, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as remuneration of employees and employee stock options.

(t) 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.

(u) The reason and the effect of changes in accounting principles

Al Jubail Fertilizer Company, a material associate of the Company, has adopted the IFRSs since 2017. However, due to the local laws and regulations in Saudi Arabia, this associate did not prepare its previous financial statements in accordance with IFRSs. Therefore, the transactions and events in similar situation between the current and previous financial statements used different accounting policies.

According to International Accounting Standard No. 8 "Accounting Policies, Changes in Accounting Estimates and Errors", this accounting policy should be applied retrospectively.

The effect of the adjusted comparative information and changes in the accounting policy on

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

the individual financial report of the company in 2017 will be described as follows:

<u>January 1, 2016 Balance Sheet</u>	<u>Before adjusted</u>	<u>Changes in accounting principles</u>	<u>After justed</u>
Investments accounted for using equity method, net	\$ 11,352,927	(601,263)	10,751,664
Deferred tax liabilities	7,293,298	(102,215)	7,191,083
Retained earnings	40,177,405	(474,024)	39,703,381
Other equity	752,777	(25,024)	727,753
<u>December 31, 2016 Balance Sheet</u>	<u>Before adjusted</u>	<u>Changes in accounting principles</u>	<u>After justed</u>
Investments accounted for using equity method, net	\$ 10,896,351	(502,589)	10,393,762
Deferred tax liabilities	7,214,538	(85,441)	7,129,097
Retained earnings	37,976,750	(417,317)	37,559,433
Other equity	594,885	169	595,054

<u>Statements of Comprehensive Income</u>	<u>2016</u>		
	<u>Before adjusted</u>	<u>Changes in accounting principles</u>	<u>After justed</u>
Shares of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, and components of other comprehensive income that will be reclassified to profit or loss	\$ (255,534)	68,321	(187,213)
Tax income (expense)	(108,484)	(11,615)	(120,099)
Exchange differences on translation	(198,711)	30,353	(168,358)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	33,892	(5,160)	28,732
Basic earnings per share	(0.13)	0.06	(0.07)
Diluted earnings per share	(0.13)	0.06	(0.07)

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

The preparation of the consolidated financial statements in conformity with the IFRSs 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.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

those changes in accounting estimates in the next period.

Due to significant judgments involved and material impact on recognized amounts for consolidated financial report.

Regarding assumptions and estimation uncertainties, valuation has a significant risk of resulting in a material adjustment within the next financial year as following:

#### Impairment of goodwill

The assessment of impairment of goodwill is based on the valuation method, material assumptions, share value, etc. The assumptions of forecast annual revenue growth rate, forecast margin, revenue on cash basis, etc. require the subjective judgments of the management, which contains estimation of uncertainty. Please refer to 6(i) for further description of the impairment of goodwill.

The assessment of impairment of goodwill relies on the assumptions of the management hierarchy of the merged Group to determine the evaluation method, the selection of important assumptions and the calculation of the value of the equity value, the estimated growth rate, gross profit margin and cash-based income used, and must rely on the management hierarchy. The subjective judgments and involve high estimation uncertainty.

The Group'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 Group strives uses the market observable inputs when measuring its assets and liabilities.

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

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

Please refer to notes listed below for assumptions used in measuring fair value.

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to Note 6(r), Financial instruments for assumptions used in measuring fair value.

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**(6) Explanation of significant accounts:**

(a) Cash and cash equivalents

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Cash on hand	\$ 4,776	4,252	4,627
Demand deposits and checking accounts	885,424	1,080,583	1,169,779
Time deposits with original maturities less than 3 months	1,376,020	-	1,300,000
Cash and cash equivalents	<b><u>\$ 2,266,220</u></b>	<b><u>1,084,835</u></b>	<b><u>2,474,406</u></b>

- (i) Time deposits with original maturity of more than 3 months are recorded as other financial assets, and are classified as non-current if their maturities exceed one year, and as follow.

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Other current financial assets	\$ 5,918,160	7,237,898	2,628,202
Other non current financial assets	52,382	65,800	65,800
	<b><u>\$ 5,970,542</u></b>	<b><u>7,303,698</u></b>	<b><u>2,694,002</u></b>

- (ii) Refer to Note 6(r) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

(b) Investment in financial assets

- (i) The components of financial assets were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Available for sale financial assets — current:			
Domestic listed shares	\$ 141,254	91,102	76,315
Mutual funds	2,040,761	3,155,410	65,800
Subtotal	2,182,015	3,246,512	142,115
Available for sale financial assets — noncurrent:			
Equity securities investment	29,531	-	-
Financial assets carried at cost — noncurrent			
Unlisted stocks	546,899	449,582	495,041
Total	<b><u>\$ 2,758,445</u></b>	<b><u>3,696,094</u></b>	<b><u>637,156</u></b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (ii) The available for sale financial assets held by the Group, and please refer to Note 6 (r) for discussion the amount of other comprehensive gains and losses recognized by the Group.
- (iii) The financial assets carried at cost held by the Group are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate of fair value cannot be reasonably determined, therefore, the Group management determines the fair value cannot be measured reliably.
- (iv) Because Green Cellulosity Corporation had a continued loss, the Corporation recognized an impairment loss of \$15,000 thousand for the years ended December 31, 2016.
- (v) On March 1, 2017, Eminent Venture Capital Group reduced its capital, and the Group received \$40,000 thousand as capital returns.
- (vi) As of June 1, 2017, Top Taiwan V Venture Capital Co., Ltd. reduced its capital, and the Group received \$12,683 thousand as capital returns.
- (vii) In November 1, 2017, the Group joint venture agreement with Eminent III VC Corp. and remitted the investment capital of \$150,000.
- (viii) Please refer to Note 6(r) for the Group's risk related with financial instruments.
- (ix) As of December 31, 2017 and 2016, the aforesaid financial assets were not pledged as collateral.
- (c) Notes receivable, accounts receivable, and other receivables

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
<u>Notes receivable</u>			
Notes receivable - sales of goods	\$ 9,627	339,767	142,637
Real estate notes receivable	22,221	107,935	455,579
	<b>\$ 31,848</b>	<b>447,702</b>	<b>598,216</b>
Notes receivable	\$ 10,517	366,324	432,891
Long-term notes receivable	21,331	81,378	165,325
	<b>\$ 31,848</b>	<b>447,702</b>	<b>598,216</b>
<u>Accounts receivable</u>			
Accounts receivable - sales of goods	\$ 1,462,493	1,216,297	1,322,203
Real estate receivable	362,691	468,166	815,858
Less: Unrealized interest income	(70,161)	(74,470)	(90,619)
Less: Allowance for impairment	-	-	-
	<b>\$ 1,755,023</b>	<b>1,609,993</b>	<b>2,047,442</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The average credit period of sales of goods was 30 to 120 days. The recognition of allowance for impairment loss was based on aging of receivables, historical experience and an analysis of customers' financial positions.

Except for those impaired, for the trade receivables balances that were past due at the end of the reporting period, the Corporation did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable. The Corporation did not hold any collateral or other credit enhancements for these balances.

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Up to 30 days	\$ 6,983	29,889	27,673
31-60 days	2,828	57,132	15,631
Over 60 days	59,661	21,506	32,466
	<b>\$ 69,472</b>	<b>108,527</b>	<b>75,770</b>

(d) Inventories, buildings and land held for sale/receipts in advance

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Raw materials	\$ 1,092,561	1,015,913	1,194,654
Finished goods	539,136	429,916	701,383
Merchandise	6,054	5,395	7,472
	<b>\$ 1,637,751</b>	<b>1,451,224</b>	<b>1,903,509</b>

Buildings and land held for sale

Nangang R5 Residential Project	\$ 201,341	350,345	271,168
Others	30	30	30
	<b>\$ 201,371</b>	<b>350,375</b>	<b>271,198</b>

Receipts in advance

Nangang R5 Residential Project	<b>\$ 117,171</b>	<b>50,759</b>	<b>135,070</b>
--------------------------------	-------------------	---------------	----------------

The cost of inventories recognized as cost of goods sold and expense for the years ended December 31, 2017 and 2016, amounted to \$8,184,041 and \$9,615,137, respectively. For the years ended December 31, 2017 and 2016, the inventory were not gain or loss from valuation of inventories was recognized. 6,707 713 6,157

As of December 31, 2017 and 2016, the aforesaid inventories were not pledged as collateral.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(e) Investments accounted for using equity method

The Group's financial information for equity accounted investees at the reporting date was as follows:

	<b>December 31, 2017</b>	<b>(After adjusted) December 31, 2016</b>	<b>(After adjusted) January 1, 2016</b>
Material associates			
Al-Jubail Fertilizer Company ("Al-Jubail")	\$ 9,538,520	10,393,762	10,748,372
Associates that are not individually material			
Bion Tech Inc.	-	-	3,292
MITAGRI Co., Ltd.	74,158	-	-
	<b>\$ 9,612,678</b>	<b>10,393,762</b>	<b>10,751,664</b>

(i) Associates that had materiality were as follows:

<b>Associate</b>	<b>Nature of relationship</b>	<b>Country of registration</b>	<b>Equity ownership</b>		
			<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Al-Jabail Fertilizer Company	Equity-method investee	Kingdom of Saudi Arabia	50.00%	50.00%	50.00%

The following is a summary of financial information on the Company's significant associates. In order to reflect the adjustments for fair value in acquisition of shares and differences in accounting policies, adjustment for the amounts presented on the financial statements of associates in accordance with IFRSs has been made to such financial information.

1) Summary financial information on Al-Jabail Fertilizer Company

	<b>December 31, 2017</b>	<b>(After adjusted) December 31, 2016</b>	<b>(After adjusted) January 1, 2016</b>
Current assets	\$ 7,502,494	6,871,619	8,205,423
Noncurrent assets	16,935,494	19,203,728	18,286,142
Current liabilities	(2,476,055)	(2,118,025)	(2,155,649)
Noncurrent liabilities	(2,525,920)	(2,590,938)	(2,586,447)
Net assets	<b>\$ 19,436,013</b>	<b>21,366,384</b>	<b>21,749,469</b>
Net assets attributable to non controlling interests	\$ 9,858,815	10,668,149	10,859,422
Net assets attributable to investee owners	9,577,196	10,698,235	10,890,047
	<b>\$ 19,436,011</b>	<b>21,366,384</b>	<b>21,749,469</b>

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	For the years ended December 31	
	2017	(After adjusted) 2016
Revenue	<b>\$ 9,656,637</b>	<b>7,833,956</b>
Profit for the year	1,323,622	(466,085)
Other comprehensive income	12,564	-
Comprehensive income	<b>\$ 1,336,186</b>	<b>(466,085)</b>
Comprehensive income attributable to non controlling interests	<b>715,439</b>	-
Comprehensive income attributable to investee owners	<b>\$ 1,336,186</b>	<b>(466,085)</b>
Dividends declared by Associates	<b>\$ 798,667</b>	-

(ii) Information of associates that are not individually material

In February 2016, an associate (Bion Tech Inc.) of the Corporation issued ordinary shares for cash, but the Corporation didn't subscribe for any shares from the issuance. Therefore, the Corporation's proportion of ownership changed from 20.62% to 17.89%. Because the Corporation ceased to have significant influence, the investment was reclassified to financial assets carried at cost by fair value. Also, the Corporation recognized a disposal gain of \$4,887 thousand.

On March 31, 2011, under the authorization of the Investment Commission of the Ministry of Economic Affairs of the Republic of China, the Group established TR Electronic Chemical Co., Ltd. ("TREC") in the Cayman Islands through its subsidiary, Taifer (Cayman) International Group Co., Ltd. TREC then invested in TR Electronic Chemical (Kunshan) Co., Ltd. ("TREC-K"), which enabled the Group to have a 51% indirect interest in TREC-K. TREC-K manufactures and sells electronic chemicals. Later, under a joint venture agreement between the Group and Shiung-Shing Chemical International Trade Corp. ("Shiung-Shing"), another TREC shareholder, Shiung-Shing assigned a manager to handle TREC's daily business and management. Thus, the Group had no control over TREC and TREC-K. In June 2015, the carrying amount of the Group's investment in TREC was zero.

As of December 31, 2017 and 2016, the investments in the aforesaid equity-accounted investees were not pledged as collateral.

(f) Loss of control of a subsidiary

In July 2017, The Group subscribed to the additional shares of MITAGRI Co., Ltd. at a percentage different from its existing ownership percentage, resulting in a decrease in its shareholding to 33.33%. In August, the directors and supervisors of MITAGRI Co., Ltd.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

were re-elected during the provisional meeting of the shareholders. Therefore, the Group no longer has any significant influence over MITAGRI Co., Ltd; therefore, it excluded MITAGRI Co., Ltd. from its consolidated financial statements since September 1, 2017. The gain on disposal of the investment of \$24,562 was included in “other gains and losses”.

The derecognition amount of Ability’s assets and liabilities as of August 30, 2017, were as follows:

Cash and cash equivalents (with capital increased by cash \$168,260 thousands)	\$	208,360
Property, plant, and equipment		5,602
Other current assets - others		3,211
Other current assets - noncurrent		1,580
Accounts payable and other accounts payable		<u>(1,048)</u>
Book value of net assets of previous subsidiary	\$	<u><u>217,705</u></u>

# TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

(g) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2017 and 2016 were as follows:

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the years ended December 31, 2017 and 2016, were as follows:

	Land	Building and construction	Machinery and equipment	Transportation Equipment	Other Equipmen	Construction in progress	Total
<b>Cost or deemed cost:</b>							
Balance on January 1, 2017	\$ 16,192,381	3,228,803	9,025,621	66,627	387,396	1,145,638	30,046,466
Additions	1,194	9,608	128,023	8,390	4,134	297,906	449,255
Disposals	(29,195)	(4,409)	(8,250)	(1,520)	(2,436)	-	(45,810)
Transfer to investment properties	(12,525,437)	(196,399)	(24,472)	-	(9,190)	-	(12,755,498)
Disposal of subsidiaries	-	(3,827)	(729)	(552)	(1,252)	-	(6,360)
Effect of foreign currency exchanges difference	-	(950)	(25)	(8)	(70)	-	(1,053)
Transfer from completion	-	87,242	135,252	2,537	13,985	(352,688)	(113,672)
Balance on December 31, 2017	<u>\$ 3,638,943</u>	<u>3,120,068</u>	<u>9,255,420</u>	<u>75,474</u>	<u>392,567</u>	<u>1,090,856</u>	<u>17,573,328</u>
Balance on January 1, 2016	\$ 16,203,074	3,372,564	9,113,581	65,291	377,213	1,128,381	30,260,104
Additions	-	232	97,752	5,094	3,860	530,246	637,184
Disposals	(636)	(200,280)	(345,956)	(5,387)	(4,578)	-	(556,837)
Transfer to investment properties	(10,057)	(89,318)	(17,994)	-	(6,149)	-	(123,518)
Effect of foreign currency exchanges difference	-	(4,793)	(127)	(2)	(332)	-	(5,254)
Transfer from completion	-	150,398	178,365	1,631	17,382	(512,989)	(165,213)
Balance on December 31, 2016	<u>\$ 16,192,381</u>	<u>3,228,803</u>	<u>9,025,621</u>	<u>66,627</u>	<u>387,396</u>	<u>1,145,638</u>	<u>30,046,466</u>
<b>Depreciation and impairment loss:</b>							
Balance on January 1, 2017	\$ -	594,344	2,463,205	43,642	109,054	82,820	3,293,065
Depreciation for the year	-	92,266	569,564	7,889	27,351	-	697,070
Disposals	-	(3,855)	(7,664)	(1,386)	(2,143)	-	(15,048)
Transfer to investment properties	-	(63,667)	(1,817)	(15,601)	(7,287)	-	(88,372)
Disposal of subsidiaries	-	(128)	(178)	(164)	(288)	-	(758)
Effect of foreign currency exchanges difference	-	(348)	(23)	(3)	(47)	-	(421)
Transfer from completion	-	-	(74,985)	12,550	(36)	5,985	(56,486)
Balance on December 31, 2017	<u>\$ -</u>	<u>618,612</u>	<u>2,948,102</u>	<u>46,927</u>	<u>126,604</u>	<u>88,805</u>	<u>3,829,050</u>
Balance on January 1, 2016	\$ -	704,215	2,108,663	42,812	88,679	82,820	3,027,189
Depreciation for the year	-	103,737	548,973	6,119	28,212	-	687,041
Impairment loss	-	927	134,914	-	260	-	136,101
Disposals	-	(200,254)	(338,727)	(5,203)	(6,192)	-	(550,376)
Transfer to investment properties	-	(7,249)	(1,279)	-	(605)	-	(9,133)
Effect of foreign currency exchanges difference	-	(1,672)	(112)	(4)	(217)	-	(2,005)
Transfer from completion	-	(5,360)	10,773	(82)	(1,083)	-	4,248
Balance on December 31, 2016	<u>\$ -</u>	<u>594,344</u>	<u>2,463,205</u>	<u>43,642</u>	<u>109,054</u>	<u>82,820</u>	<u>3,293,065</u>
<b>Carrying amounts:</b>							
Balance on December 31, 2017	<u>\$ 3,638,943</u>	<u>2,501,456</u>	<u>6,307,318</u>	<u>28,547</u>	<u>265,963</u>	<u>1,002,051</u>	<u>13,744,278</u>
Balance on December 31, 2016	<u>\$ 16,192,381</u>	<u>2,634,459</u>	<u>6,562,416</u>	<u>22,985</u>	<u>278,342</u>	<u>1,062,818</u>	<u>26,753,401</u>
Balance on January 1, 2016	<u>\$ 16,203,074</u>	<u>2,668,349</u>	<u>7,004,918</u>	<u>22,479</u>	<u>288,534</u>	<u>1,045,561</u>	<u>27,232,915</u>

(i) The Group due to the partial replotting of the land and the planned change to the use of lease during this period, after the approval of the board of directors of the report, it was transferred to \$19,165,912 under the investment property.

(ii) As of December 31, 2017 and 2016, the property, plant and equipment were not pledged as collateral.

## **TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

### **Notes to the Consolidated Financial Statements**

- (iii) For the years ended December 31, 2016, as the result of the declining sale of the related products of Taiwan Yes Deep Ocean Water Co, Ltd. in the market, the estimated future cash flows expected to arise from the related equipment was decreased. The Group carried out a review of the recoverable amount of that related equipment and determined that the carrying amount exceeded the recoverable amount. The review led to the recognition of an impairment loss of \$136,101 thousand, which was recognized in other gains and losses. The Group determined the recoverable amount of the relevant assets on the basis of their value in use. The discount rate used in measuring value in use was 14% per annum.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(h) Investment property

The Group for the Investment property were as follows:

	Completed Investment Property	Investment Property under Construction	Undeveloped Investment Property	Total
<b>Costs:</b>				
Balance on January 1, 2017	\$ 8,347,437	6,426,206	7,045,536	21,819,179
Additions	3,827	820,865	399,463	1,224,155
Transferred from property, plant and equipment	216,888	3,116	12,535,494	12,755,498
Disposals	-	-	(93,040)	(93,040)
Balance on December 31, 2017	<u>\$ 8,568,152</u>	<u>7,250,187</u>	<u>19,887,453</u>	<u>35,705,792</u>
Balance on January 1, 2016	\$ 8,347,437	5,683,320	6,372,955	20,403,712
Additions	-	619,368	672,581	1,291,949
Transferred from property, plant and equipment	-	123,518	-	123,518
Balance on December 31, 2016	<u>\$ 8,347,437</u>	<u>6,426,206</u>	<u>7,045,536</u>	<u>21,819,179</u>
<b>Amortization and Impairment Loss:</b>				
Balance on January 1, 2017	\$ 30,424	23,509	607,646	661,579
Depreciation	17,904	17,539	-	35,443
Transferred from property, plant and equipment	88,372	-	-	88,372
Balance on December 31, 2017	<u>\$ 136,700</u>	<u>41,048</u>	<u>607,646</u>	<u>785,394</u>
Balance on January 1, 2016	\$ 21,379	703	607,646	629,728
Depreciation	9,045	13,673	-	22,718
Transferred from property, plant and equipment	-	9,133	-	9,133
Balance on December 31, 2016	<u>\$ 30,424</u>	<u>23,509</u>	<u>607,646</u>	<u>661,579</u>
<b>Carrying amount:</b>				
Balance on December 31, 2017	<u>\$ 8,431,452</u>	<u>7,209,139</u>	<u>19,279,807</u>	<u>34,920,398</u>
Balance on December 31, 2016	<u>\$ 8,317,013</u>	<u>6,402,697</u>	<u>6,437,890</u>	<u>21,157,600</u>
Balance on January 1, 2016	<u>\$ 8,326,058</u>	<u>5,682,617</u>	<u>5,765,309</u>	<u>19,773,984</u>
<b>Fair value:</b>				
Balance on December 31, 2017				<u>\$ 100,758,372</u>
Balance on December 31, 2016				<u>\$ 89,504,110</u>
Balance on January 1, 2016				<u>\$ 94,872,928</u>

In the current period, the company was completed due to partial rezoning of land and transferred to investment real estate. Please refer to Note 6(g) for details.

Completed investment property are located in C3/C6/C7/C8/C9 in the Nangang Economic and Trade Park, and the Corporation leased land use right to others.

(i) The main provisions of the C6/C7/C8/C9 contract on the pledging of land use rights

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

were as follows:

- 1) Land use rights are for 50 years from the date of registration of these rights. When these rights expire or the contract is terminated, the lessee should cancel its registration for the land use rights and transfer to the Corporation all the land improvements (including the main building, attached building, parking space and all other attached facilities and improvements such as air-conditioning, and utility fixtures).
  - 2) The land use rights (accounted for as deferred income-noncurrent) amounted to \$3,200,889 thousand, which has been treated as royalty revenue (accounted for as operating revenue) amortizable over 50 years from June 13, 2006. As of December 31, 2017, 2016 and January 1, 2016, the unamortized balances of the land used rights under above mentioned contract were \$2,426,017 thousand, \$2,526,035 thousand, and \$2,590,053 thousand, respectively.
  - 3) In addition to the land use right, the annual rental payable by the lessee is 8% of the reference land price announced by the local government, with the calculation starting from the contract date. When the reference land price is adjusted, the annual rental will be revised at the percentage the same as that set on the date of the reference price adjustment. The annual rentals in 2017 and 2016 were \$331,327 thousand and \$345,132 thousand, respectively.
  - 4) The lessee should not transfer the land use rights or the ownership of leasehold improvements to a third party. Also prohibited are the placing of the land rights under a trust and the use of the rights as collateral.
  - 5) The lessee should not pledge liabilities on land use rights and improvements to a third party.
- (ii) On September 15, 2015, the Corporation signed with CTBC Life Insurance Co., Ltd. and Taiwan Life Insurance Co., Ltd. (together, the “lessees”) separate contracts for these two insurance companies to have the rights to use land located in C3 in the Nangang Economic and Trade Park. The main provisions of these contracts are as follows:
- 1) Land use rights (LURs) are valid for 45 years from the date of the registration of these rights. When these rights expire or the contracts are terminated by the Corporation or the lessees, the lessees should maintained all the land improvements (including the main building, attached building, parking space and all other attached facilities and improvements) at usable condition and cancel their registration for the LURs and transfer to the Corporation or a third party designated by the Corporation. But if the Corporation wants to demolish the land

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

improvements, it should accordingly inform the lessees in writing within at least five years before the contract expires.

- 2) The LURs (accounted for as deferred income - noncurrent) amounted to \$14,288,705 thousand, which has been treated as royalty revenue (under operating revenue) amortizable over 45 years from December 10, 2015. As of December 31, 2017, 2016 and January 1, 2016, the unamortized balance of the LURs were \$13,636,011 thousand, \$13,953,538 thousand, and \$14,271,064 thousand, respectively.
- 3) In addition to the LURs, the annual rental payable by the lessees is 0.8% of the reference land price announced by the local government, with the calculation starting from the registration date. When the reference land price is adjusted, the annual rental will be revised at the same percentage as the rate of the reference price adjustment. The lessees' annual rental in 2017 and 2016 were \$48,149 thousand.
- 4) The LURs should not be transferred to a third party. Also, the placing of the LURs under a trust and the use of the rights as collaterals are prohibited without the Corporation's prior written consent.
- 5) After nine years and six months from the registration date, the lessees have within six months to extend the validity period for the land use rights to another 40 years by giving a written notice to the Corporation. With this extension, the entire validity period of the LURs will be 85 years, and the lessees should pay an additional one-time royalty of \$15,000,000 thousand.
- 6) Under the contract, the lessees provided the Taiwan Government Bond A02105 and A03114 as collaterals; the fair values of these bonds were as follow:

	<b>The Taiwan Government Bond A02105</b>	<b>The Taiwan Government Bond A03114</b>
Balance on December 31, 2017	<u>\$ 1,030,629</u>	<u>1,614,901</u>
Balance on December 31, 2016	<u>\$ 1,078,335</u>	<u>1,666,091</u>
Balance on January 1, 2016	<u>\$ 968,192</u>	<u>1,437,659</u>

- (iii) Investment properties under construction are located in Hsinchu City and Hualien City and included land for the "C2 Tourist Hotel Project" and "Commercial Building Project" in the Nangang Economic and Trade Park. The C2 Tourist Hotel Project was won by the Grand Hi-Lai Hotel Co., Ltd. and the Caesar Park Hotel Co., Ltd., which both signed a front-end agreement (FEA) on December 31, 2013; both parties (the "Hotels") will sign a lease agreement under this FEA.

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

The main terms of the FEA were as follows:

- 1) The Corporation is responsible for the construction of the lease premises (the “Premises”), and the Hotels should assist the Corporation in construction-related matters. The Corporation will shoulder the construction cost. Both parties are responsible for the completion of the premises in six years after signing the FEA.
- 2) The lease contract is for 20 years from the start of the lease contract, and the lessee has the first option to extend the lease for another 10 years. Upon expiry or termination of this lease agreement, the lessee should turn over the Premises as is to the Corporation.
- 3) The lessee should pay monthly rentals, calculated at the higher of the guaranteed rentals or revenue-based rentals payable to the Corporation from the Premises opening date. The guaranteed rental will be increased 1% each year, and the revenue-based rentals are 16% of the gross revenue of the hotel each month.
- 4) Under this FEA and lease agreement, the lessee should not assign and transfer any of its rights or obligation to a third party.

This project was approved by the Executive Committee of Urban Design and Land Use on February 15, 2016. The Group received the miscellaneous licenses and the notice of performance-based fire protection design with the approval from the Ministry of Interior in May and October 2017, respectively. The Group also obtained the construction permit in May 2017. This project is still in the progress.

The bid for the C2 Commercial Building Project was won by Dung Jeng Investment Co., Ltd. (“Dung Jeng”), for which the Corporation will construct a building and parking space for Dung Jeng’s lease. The lease contract was signed on January 30, 2015. The lease period is 20 years from the completion of the construction of the building and parking space.

The fair value of investment properties (as measured or disclosed in the consolidated financial statements) was based on a valuation by a qualified independent appraiser who has recent valuation experience in the location and category of the investment property being valued. The inputs of levels of fair value hierarchy in determining the fair value is classified to Level 3.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The fair values of investment properties were assessed as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
<u>C6/C7/C8/C9</u>			
Fair value	<b>\$ 23,025,461</b>	<b>24,139,596</b>	<b>24,696,664</b>
Measurement	The fair values were based on the valuations carried out at April 11, 2017 by independent qualified professional valuer.	The fair values were based on the valuations carried out at March 11, 2016 by independent qualified professional valuer.	The fair values were based on the valuations carried out at April 15, 2015 by independent qualified professional valuer.
<u>C2</u>			
Fair value	<b>\$ 19,038,100</b>	<b>19,743,214</b>	<b>20,659,864</b>
Measurement	The fair values were based on the valuations carried out at April 11, 2017 by independent qualified professional valuer.	The fair values were based on the valuations carried out at March 11, 2016 by independent qualified professional valuer.	The fair values were based on the valuations carried out at April 15, 2015 by independent qualified professional valuer.
<u>C3</u>			
Fair value	<b>\$ 32,919,880</b>	<b>34,427,661</b>	<b>38,322,761</b>
Measurement	The fair values were based on the valuations carried out at April 11, 2017 by independent qualified professional valuer.	The fair values were based on the valuations carried out at March 11, 2016 by independent qualified professional valuer.	The fair values were based on the valuations carried out at March 30, 2015 by independent qualified professional valuer.

<u>Area</u>	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
C6/C7/C8/C9	18%	18%
C2	15%	15%
C3	18%	18%

The other investment properties held by the Corporation are mainly located in different industrial zones. They have no quoted prices in an active market and there was no alternative basis for estimating their fair values. Thus, the fair values of the investment properties were not reliably determinable.

As of December 31, 2017, 2016 and January 1, 2016 investment properties were not pledged as collateral.

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(i) Intangible Assets

The components of the costs of intangible assets, amortization, and impairment loss thereon for the years ended December 31, 2017 and 2016, were as follows:

	<u>Patents</u>	<u>Computer Software</u>	<u>Trademark</u>	<u>Goodwill</u>	<u>Total</u>
<b>Cost:</b>					
Balance on January 1, 2017	\$ 29,010	120,929	84,900	358,487	593,326
Additions	-	21,200	-	-	21,200
Balance on December 31, 2017	<b><u>\$ 29,010</u></b>	<b><u>142,129</u></b>	<b><u>84,900</u></b>	<b><u>358,487</u></b>	<b><u>614,526</u></b>
Balance on January 1, 2016	\$ 29,010	115,925	84,900	358,487	588,322
Additions	-	5,558	-	-	5,558
Disposals	-	(554)	-	-	(554)
Balance at December 31, 2016	<b><u>\$ 29,010</u></b>	<b><u>120,929</u></b>	<b><u>84,900</u></b>	<b><u>358,487</u></b>	<b><u>593,326</u></b>
<b>Accumulated amortization and impairment:</b>					
Balance on January 1, 2017	\$ 28,574	100,766	49,000	157,000	335,340
Amortization expense	285	12,592	-	-	12,877
Impairment loss	-	-	-	31,714	31,714
Balance at December 31, 2017	<b><u>\$ 28,859</u></b>	<b><u>113,358</u></b>	<b><u>49,000</u></b>	<b><u>188,714</u></b>	<b><u>379,931</u></b>
Balance on January 1, 2016	\$ 28,289	88,038	-	-	116,327
Amortization expense	285	13,094	-	-	13,379
Impairment loss	-	-	49,000	157,000	206,000
Impairment loss rotation	-	(366)	-	-	(366)
Balance at December 31, 2016	<b><u>\$ 28,574</u></b>	<b><u>100,766</u></b>	<b><u>49,000</u></b>	<b><u>157,000</u></b>	<b><u>335,340</u></b>
<b>Fair value:</b>					
Balance on December 31, 2017	<b><u>\$ 151</u></b>	<b><u>28,771</u></b>	<b><u>35,900</u></b>	<b><u>169,773</u></b>	<b><u>234,595</u></b>
Balance on December 31, 2016	<b><u>\$ 436</u></b>	<b><u>20,163</u></b>	<b><u>35,900</u></b>	<b><u>201,487</u></b>	<b><u>257,986</u></b>
Balance on January 1, 2016	<b><u>\$ 721</u></b>	<b><u>27,887</u></b>	<b><u>84,900</u></b>	<b><u>358,487</u></b>	<b><u>471,995</u></b>

The Group acquired trademark and goodwill through the acquisition of an additional 50% equity in Taiwan Yes Deep Ocean Water Co., Ltd. ("Taiwan Yes") on January 7, 2013. For the years ended December 31, 2017 and 2016, the Group evaluated the recoverable amount of trademark and goodwill and recognized an impairment loss of \$31,715 and \$206,000 thousand, respectively. The recoverable amount of Taiwan Yes were determined based on the value in use calculation with a discount rate of 17.31% and 14%, respectively. This impairment was mainly due to the fact that the future operating performance of Taiwan Yes was not as expected.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(j) Long-term prepayment for lease

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
Land in a special petrochemical industry zone in Taichung	<u>\$ 1,180,739</u>	<u>1,215,950</u>	<u>1,286,561</u>

On October 31, 2006, the Corporation leased from the Taichung Harbor Bureau, Ministry of Transportation and Communications (“THB”) a 247.298-square meter lot in a special petrochemical industry zone in Taichung to develop wharf areas, called wests 8 and 9, and construct warehouse facilities and public roads. In April 2007, the Corporation informed THB that an inspection showed the area of the land as stated in the lease contract was the same as that to be actually used by the Corporation; thus, the Corporation signed the contract. The main provisions of the lease agreement were as follows:

- (i) The lease term for the land in a special industrial zone is 20 years, and the agreement is renewable until the total lease reaches 50 years. The ownership of the real estate and its improvements constructed with the Corporation’s capital belongs to the Corporation. In principle, the Corporation will return the land to the government on the agreement expiry or upon early termination of the lease agreement.
- (ii) As mentioned above, the Corporation has leased land, developed wests 8 and 9 of the wharf area and constructed warehouse facilities and public roads on behalf of THB. The Corporation used its capital expenses for the construction as rentals in advance. However, once the lease term ends or the agreement is early terminated, all the titles to the facilities and improvements on the leased land should be transferred to THB.
- (iii) In the case where the difference between the final and the estimated amount of total investment in construction facilities and public road construction project exceeds \$10,000, the rent-free period shall be recalculated based on the final amount.

The Corporation uses its expenditures of \$1,500,481 thousand for the construction of wests 8 and 9 of Taichung Harbor as rentals until March 20, 2034. The long-term prepayments for lease should be amortized over its rent-free periods.

As of December 31, 2017, 2016 and January 1, 2016 long-term prepayment for lease were not pledged as collateral.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(k) Operating leases

The Group leases out its investment properties (see Note 6(g)). The future minimum leases payments under non cancellable leases (excluding land used rights) are as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Less than one year	\$ 583,929	551,500	358,208
Between one and five years	2,316,853	2,068,792	1,324,892
More than five years	13,927,467	14,061,550	8,235,274
	<b>\$ 16,828,249</b>	<b>16,681,842</b>	<b>9,918,374</b>

Operating leases relate to the investment property owned by the Corporation with lease terms between 1 to 50 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

For the years ended December 31, 2017 and 2016, the property rental income were \$389,455 thousands and \$318,019 thousands, respectively. There were no significant property equipment and maintenance expenses.

(l) Employee benefits

(i) Defined benefit plans

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Present value of defined benefit obligation	\$ 542,820	115,353	557,548
Fair value of plan assets	(430,757)	(70,732)	(89,508)
Net defined benefit liabilities	<b>\$ 112,063</b>	<b>94,353</b>	<b>468,040</b>

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pension benefits 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 set aside 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.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

The Group's contributions to the pension funds were deposited with Bank of Taiwan. 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) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December</b>	
	<b>31</b>	
	<b>2017</b>	<b>2016</b>
Defined benefit obligation, January 1	\$ 542,182	557,548
Current service costs and interest	23,319	25,023
Re-measurement of the net defined benefit liability		
— Actuarial (losses) gains arose from changes in demographic assumptions	1	2
— Actuarial gains arose from changes in financial assumption	19,243	7,182
— Experience adjustment	19,720	10,574
Past service cost and settlement loss or profit	(1,376)	10,809
Benefits paid	(60,269)	(44,834)
Liabilities extinguished on settlement	-	(24,122)
Defined benefit obligation, December 31	<b>\$ 542,820</b>	<b>542,182</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

3) Movements in the fair value of plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Fair value of plan assets, January 1	\$ 447,829	89,508
Interests revenue	4,302	702
Re-measurement of the net defined benefit liability		
— Experience adjustment	(195)	1,913
Contributions made	33,307	405,581
Past service cost and settlement loss or profit	-	(13,570)
Benefits paid	(54,486)	(36,305)
Fair value of plan assets, December 31	<b>\$ 430,757</b>	<b>447,829</b>

4) Movements in the fair value of plan assets: None

5) Expenses recognized in profit or loss

The Group's pension expenses recognized in profit or loss for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current service cost	\$ 18,173	19,748
Net interest of net liabilities for defined benefit obligations	843	4,573
Past service cost and settlement loss or profit	(1,376)	10,809
	<b>\$ 17,640</b>	<b>35,130</b>
Operating costs	\$ 10,954	9,510
Operating expenses	6,686	25,620
	<b>\$ 17,640</b>	<b>35,130</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 6) Re-measurement of net defined benefit liability recognized in other comprehensive income

The Group's net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Cumulative amount, January 1	\$ 60,269	47,118
Recognized during the year	32,501	13,151
Cumulative amount, December 31	<b>\$ 92,770</b>	<b>60,269</b>

- 7) Actuarial assumptions

The following were the key actuarial assumptions at the reporting date:

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

	<b>2017.12.31</b>	<b>2016.12.31</b>
--	-------------------	-------------------

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 \$18,801.

The weighted-average duration of the defined benefit plan is 6 year.

- 8) Sensitivity Analysis

As of December 31, 2017 and 2016, the changes in the principal actuarial assumptions will impact on the present value of defined benefit obligation as follows:

	<b>Impact on the present value of defined benefit obligation</b>	
	<b>Increase by 0.25%</b>	<b>Decrease by 0.25%</b>
December 31, 2017		
Discount rate	(8,862)	9,154
Future salary increase rate	9,062	(8,819)
December 31, 2016		
Discount rate	(8,850)	9,138
Future salary increase rate	9,097	(8,854)

The sensitivity analysis assumed all other variables remain constant during the measurement. This may not be representative of the actual change in defined benefit obligation as some of the variables may be correlated in the actual

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

situation. The model used in the sensitivity analysis is the same as the defined benefit obligation liability.

The analysis is performed on the same basis for prior year.

(ii) Defined contribution plans

The Group contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Group's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating costs	\$ 10,374	8,852
Operating expenses	10,808	11,703
	<b><u>\$ 21,182</u></b>	<b><u>20,555</u></b>

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2017 and 2016 amounted to \$18,28416,010 and \$27,299 , respectively

(iii) Short-term employee benefits

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
short term employee benefit liabilities	<b><u>\$ 8,153</u></b>	<b><u>-</u></b>	<b><u>482</u></b>

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

(m) Income tax

- (i) The components of income tax expense for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current income tax expense		
Current period incurred	\$ 170,368	519
Land value increment tax	36,470	288
10% surtax on undistributed earnings	1,361	10,940
Prior years income tax adjustment	(10,483)	(10,965)
	197,716	782
Deferred tax expense	17,211	119,317
Income tax expense	<b>\$ 214,927</b>	<b>120,099</b>

The following are details of the income tax (expense) benefit recognized under other comprehensive income:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Items that will not be reclassified to profit or loss:		
Remeasurements effects of defined benefit plans	<b>\$ 6,658</b>	<b>2,693</b>
Items that may be reclassified subsequently to profit and loss:		
Translation of foreign operations	<b>\$ 138,575</b>	<b>28,732</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Income tax calculated on pre tax financial income was reconciled with income tax expense for the years ended December 31, 2017 and 2016 as follows:

	<b>For the years ended December</b>	
	<b>31</b>	
	<b>2017</b>	<b>2016</b>
Profit before income tax	\$ 1,834,053	(47,302)
Income tax on pre tax financial income calculated at the domestic rate	311,789	(23,241)
Effect of tax rates in foreign jurisdiction	(265)	-
Nondeductible income tax	41,083	-
Tax-exempt income	(52,781)	(10,247)
Changes in unrecognized deductible temporary differences	(10,581)	77,513
10% surtax on undistributed earnings	1,361	10,940
Prior years income tax adjustment	(10,483)	(10,965)
Adjustments for determining taxable profit	(64,905)	75,811
Others	(291)	288
Income tax	<b>\$ 214,927</b>	<b>120,099</b>

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Tax effect of deductible Temporary Differences	\$ 7,252	50,144
The carryforward of unused tax losses	807,904	-
	<b>\$ 815,156</b>	<b>50,144</b>

The ROC Income Tax Act allows the carry forward of net losses, as assessed by the tax authorities, to offset against taxable income. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As of December 31, 2017, the information of the Group's unutilized business losses, in which no deferred tax assets were recognized, are as follows:

Year of occurrence	Unused balance	Expiry year
2007	\$ 183,626	2017
2008	105,711	2018
2009	95,911	2019
2010	126,391	2020
2011	70,864	2021
2012	45,781	2022
2013	5,447	2023
2014	22,647	2024
2015	26,549	2025
2016	43,760	2026
	<b>\$ 726,687</b>	

#### 2) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2017 and 2016 were as follows:

Deferred tax liabilities:

	Land value increment tax	Investment income recognized under the equity method	Exchange difference on the translation of foreign operations	Others	Total
Balance on January 1, 2017	\$ 6,420,233	532,020	176,761	83	7,129,097
Recognized in profit or loss	(7,405)	(4,857)	-	12,314	52
Recognized in other comprehensive income	-	-	(115,063)	-	(115,063)
Balance on December 31, 2017	<b>\$ 6,412,828</b>	<b>527,163</b>	<b>61,698</b>	<b>12,397</b>	<b>7,014,086</b>
Balance on January 1, 2016	\$ 6,420,390	565,153	205,493	47	7,191,083
Recognized in profit or loss	(157)	(33,133)	-	36	(33,254)
Recognized in other comprehensive income	-	-	(28,732)	-	(28,732)
Balance on December 31, 2016	<b>\$ 6,420,233</b>	<b>532,020</b>	<b>176,761</b>	<b>83</b>	<b>7,129,097</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Deferred tax assets:

	Unamortized manufacturing costs	Tax losses	Defined benefit obligation	Impairment loss on assets	Exchange difference on the translation of foreign operations	Others	Total
Balance on January 1, 2017	\$ 37,834	67,766	16,040	70,731	-	16,743	209,114
Recognized in profit or loss	(4,303)	(27,454)	(3,646)	-	-	5,137	(30,266)
Recognized in other comprehensive income	-	-	6,657	-	23,512	-	30,169
Balance on December 31, 2017	<u>\$ 33,531</u>	<u>40,312</u>	<u>19,051</u>	<u>70,731</u>	<u>23,512</u>	<u>21,880</u>	<u>209,017</u>
Balance on January 1, 2016	\$ 60,880	119,232	79,567	81,638	-	17,673	358,990
Recognized in profit or loss	(23,046)	(51,467)	(66,220)	(10,907)	-	(930)	(152,570)
Recognized in other comprehensive income	-	-	2,693	-	-	-	2,693
Balance on December 31, 2016	<u>\$ 37,834</u>	<u>67,765</u>	<u>16,040</u>	<u>70,731</u>	<u>-</u>	<u>16,743</u>	<u>209,113</u>

(iii) The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

(iv) Stockholders' imputation tax credit account and tax rate

		(after adjusted) December 31, 2017	(after adjusted) December 31, 2016	(after adjusted) January 1, 2016
Company's earnings generated for the period up to December 31, 1997	(Note)	\$ -	-	-
Unappropriated earnings of 1998 and after	(Note)	<u>286,015</u>	<u>2,672,036</u>	<u>2,672,036</u>
Stockholders' imputation tax credit account	(Note)	<u>\$ 192,221</u>	<u>945,082</u>	<u>945,082</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	(Note)	<u>2017(Expect)</u>	<u>2016(Actual)</u>	<u>7.20%</u>

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(n) Share capital and other interests

(i) Share capital

As of December 31, 2017 and 2016, the authorized capital of the Company amounting to \$9,800,000 with par value of \$10 per share. The paid in capital was \$9,800,000 thousands, and the capital that rose from the shares had all been retrieved.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(ii) Capital surplus

The components of capital surplus were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>			
Donations	\$ 44,803	44,803	44,803
Treasury share transactions	2,187,988	2,187,988	2,187,988
<u>May not be used</u>			
Arising from share of changes in capital surplus of associates	-	-	4,887
	<b>\$ 2,232,791</b>	<b>2,232,791</b>	<b>2,237,678</b>

In accordance with Amended Companies Act 2012, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting against losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with Securities Offering and Issuance Guidelines, the amount of capital reserves that can be capitalized shall not exceed 10 percent of the actual share capital amount.

(iii) Retained earnings

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

To determine dividend amounts, the Corporation should take into account the diversity of its business, cycles of the industry, and capital demand in relation to specific products and services. To balance business development and shareholders' welfare, the cash dividend should not be less than 10% of total annual dividends, unless there is any capital demand due to essential investment plan, change in financial position, business operation, extension of capacity or any other capital expenditure and should be approved in the shareholders' meetings.

1) Legal reserve

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

In accordance with the Company Act amended in 2012, 10 percent of net income is set aside as legal reserve until it is equal to share capital. If the Company earned a profit for the year, the meeting of shareholders decides on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, and the distribution is limited to the portion of legal reserve which exceeds 25 percent of the actual share capital.

#### 2) Special reserve

The Group implemented the optional exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards” when adopting the International Financial Reporting Standards at first time. The increase in retained earnings resulting from the unrealized revaluation increments, cumulative translation adjustment and the revaluation increments in the transfer from fix assets to investment property was \$0. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, the same amount of the increasing earnings shall be reclassified to special earnings reserve. If a certain proportion of the asset has been disposed or reclassified, the same proportion of special earnings reserve equivalent to that of the asset, which has been disposed or reclassified, has to be transferred back to its earnings. Such special earnings reserve has to have the same amount with the one that was initially being reclassified to its special earnings reserve. The balance of such special earnings reserve amounted to \$31,449,960 and \$33,590,309 as of December 31, 2017 and 2016, respectively.

In accordance with the aforesaid Ruling, a special reserve is set aside from the current year’s net income after tax and prior year’s undistributed earnings at an amount equal to the debit balance of contra accounts in shareholders’ equity. When the debit balance of any of these contra accounts in shareholders’ equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 3) Earnings distribution

Earnings distribution for 2016 and 2015 was decided via the general meeting of shareholders held on 14 June 2017 and 29 June 2016, respectively. The relevant dividends distributions to shareholders were as follows:

	2016		2015	
	Amount per share (dollars)	Amount	Amount per share (dollars)	Amount
Dividends distributed to ordinary shareholders:				
Cash	\$ 2.10	<u>2,058,000</u>	2.10	<u>2,058,000</u>

The net loss for the year, which amounted to \$129,503 thousand, will be made up by unappropriated earnings. By combining the adjusted unappropriated earnings amounting to \$832,835 thousand with the reversed appropriated special reserve amounting to \$2,030,304 thousand, the Corporation will distribute cash dividends amounting to \$2,058,000 thousand (\$2.1 per share).

#### (iv) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available for sale investments	Total
Balance on January 1, 2017	\$ 531,966	62,919	594,885
Retrospective application and the impact of retrospective adjustment	169	-	169
Balance on January 1, 2017 after adjusted	532,135	62,919	595,054
Exchange differences on translation of foreign net assets	(5,075)	-	(5,075)
Share of exchange differences of subsidiaries and associates accounted for using equity method	(674,387)	-	(674,387)
Unrealized gains (losses) on available for sale financial assets	-	49,729	49,729
Balance on December 31, 2017	<u>\$ (147,327)</u>	<u>112,648</u>	<u>(34,679)</u>
Balance on January 1, 2016	\$ 710,438	42,339	752,777
Retrospective application and the impact of retrospective adjustment	(25,024)	-	(25,024)
Balance on January 1, 2017 after adjusted	685,414	42,339	727,753
Exchange differences on translation of foreign net assets	(13,654)	-	(13,654)
Share of exchange differences of subsidiaries and associates accounted for using equity method (after adjusted)	(139,625)	-	(139,625)
Unrealized gains (losses) on available for sale financial assets	-	20,580	20,580
Balance on December 31, 2016	<u>\$ 532,135</u>	<u>62,919</u>	<u>595,054</u>

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(o) Earnings per share

The basic earnings per share and diluted earnings per share were calculated as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>(after adjusted) 2016</b>
<b>Basic earnings per share</b>		
Profit attributable to ordinary shareholders	<b>\$ 1,619,126</b>	<b>(72,797)</b>
Weighted average number of ordinary shares	980,000	980,000
	<b>\$ 1.65</b>	<b>(0.07)</b>
<b>Diluted earnings per share</b>		
Profit attributable to ordinary shareholders (diluted)	<b>\$ 1,619,126</b>	<b>(72,797)</b>
Weighted average number of ordinary shares	980,000	980,000
Effect of potentially dilutive ordinary shares		
Employees' compensation	1,186	-
Weighted average number of ordinary shares (diluted)	981,186	980,000
	<b>\$ 1.65</b>	<b>(0.07)</b>

(p) Operating revenues and costs

The details of operating revenues and costs of the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating revenues		
Sales revenue	\$ 9,964,394	10,457,717
Rental revenue	1,493,868	1,453,864
Property revenue	277,082	303,718
Other revenue	58,668	50,285
Less: Sales returns and allowances	(135,026)	(24,664)
Net operating revenues	11,658,986	12,240,920
Operating costs		
Cost of goods sold	8,163,868	9,441,818
Rental cost	736,310	675,081
Property selling cost	157,583	117,767
Total operating costs	9,057,761	10,234,666
Gross profit	<b>\$ 2,601,225</b>	<b>2,006,254</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(q) Remuneration to employees, directors and supervisors

Based on the Group's articles of incorporation, remuneration to employees, directors and supervisors is appropriated at the rate of 2.4% and no more than 1.6%, respectively, of the profit before tax. The Group should first offset the prior years' accumulated deficit before any appropriation of any profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Group, which can be settled in the form of cash or stock.

For the year ended December 31, 2017, the remuneration to employees amounted to \$45,474, and the directors' and supervisors' remuneration amounted to \$30,437. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Group's articles. These remunerations were expensed under operating costs or operating expenses during 2016 and 2015. There was no difference between the amounts approved in Board of Directors meeting.

Information on remuneration to employees, directors and supervisors resolved by the Corporation's board of directors in 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

(r) Non operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Interest income - bank deposits	\$ 83,575	62,445
Subsidies of land improvement demolition	-	46,870
Dividends	43,562	41,782
Others	71,416	17,220
	<b>\$ 198,553</b>	<b>168,317</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Gain on disposal of property, plant and equipment \$	79,371	3,584
Net foreign exchange gain or loss	(36,083)	12,719
Loss on disposal of other non-current assets	(2,100)	
Gain on disposal of investments	46,350	23,381
Donation expenses	(241,381)	(149,475)
Loss on impairment of intangible assets	-	(206,000)
Loss on impairment of financial assets	-	(15,000)
Loss on impairment of property, plant and equipment	(31,714)	(136,101)
Impairment loss of other receivables	-	(4,294)
Others	(23,329)	(51,281)
	<b>\$ (208,886)</b>	<b>(522,467)</b>

(iii) Finance costs

The details of finance costs for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Bank interest expense	<b>\$ 555</b>	<b>7,029</b>

(s) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the Company's maximum credit exposure.

2) Credit risk concentrations

The clients of the Company are widely spread and unrelated; thus, credit risk is limited.

# TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (ii) Liquidity risk

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

	Carrying amount	Within 1 year	1-3 months	3 months - 1 year	1-5 years	More than 5 years
<b>December 31, 2017</b>						
Non-derivative financial liabilities						
Variable-rate liabilities	\$ 35,104	35	35,069	-	-	-
Noninterestbearing liabilities	1,769,480	356,339	1,011,140	402,001	-	-
	<b>\$ 1,804,584</b>	<b>356,374</b>	<b>1,046,209</b>	<b>402,001</b>	-	-
<b>December 31, 2016</b>						
Non-derivative financial liabilities						
Variable-rate liabilities	\$ 46,141	52	46,089	-	-	-
Noninterestbearing liabilities	1,409,387	57,055	991,770	360,562	-	-
	<b>\$ 1,455,528</b>	<b>57,107</b>	<b>1,037,859</b>	<b>360,562</b>	-	-
<b>Balance on January 1, 2016</b>						
Non-derivative financial liabilities						
Variable-rate liabilities	\$ 10,060	7	10,025	28	-	-
Noninterestbearing liabilities	1,956,703	83,806	1,148,558	724,339	-	-
	<b>\$ 1,966,763</b>	<b>83,813</b>	<b>1,158,583</b>	<b>724,367</b>	-	-

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

### (iii) Transfer between levels

#### 1) Currency risk

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

	December 31, 2017			(after adjusted) December 31, 2016			(after adjusted) January 1, 2016		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>									
<u>Monetary items</u>									
USD: NTD	\$ 114,310	29.76	3,401,870	11,305	32.25	364,586	13,604	32.825	446,551
USD: MNT	1,416	29.76	42,133	1,242	2,489.53	40,055	1,078	1,995.51	35,385
<u>Financial liabilities</u>									
Investments accounted for using equity									
SAR: NTD	1,173,285	7.94	9,310,318	1,208,690	8.60	10,393,762	1,228,032	8.75	10,751,664
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD: NTD	19,537	29.76	581,429	6,634	32.25	213,947	19,852	32.825	651,642

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Group's functional currency as of December 31, 2017 and 2016 would have increased or decreased the before tax net income by \$237,594 and \$15,828, respectively. The analysis is performed on the same basis for both periods.

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2017 and 2016, the foreign exchange losses, including both realized and unrealized, amounted to \$(36,083) and \$12,719, respectively.

(iv) Sensitivity analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

The sensitivity analyses below were based on the exposure to equity price risks at the end of the reporting period. For floating-rate liabilities, the analysis is based on the assumption that the amount of liabilities outstanding on the reporting date is circulated throughout the year.

If interest rates had been 1 basis point higher/lower and all other variables were held constant, the Corporation's pre-tax (loss) profit for the years ended December 31, 2017 and 2016 would decrease/increase by \$0 due to the Company's cash and cash equivalents balances which exceeds its loan amount.

(v) Other price risk

If the stock price changes at the reporting date, the changes in other comprehensive income of the Company are estimated as follows: (The analysis was made on the same basis for both periods, assuming that all other variables remain constant and any impact to forecasted sales and purchases was ignored):

<u>Equity price at the end of the reporting period</u>	<b>For the years ended December 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Comprehensive Income (Loss) (net of tax)</b>	<b>Net Income (Loss) (net of tax)</b>	<b>Comprehensive Income (Loss) (net of tax)</b>	<b>Net Income (Loss) (net of tax)</b>
Increase 5%	<b>\$ 110,577</b>	-	<b>162,326</b>	-
Decrease 5%	<b>\$ (110,577)</b>	-	<b>(162,326)</b>	-

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(vi) Fair value of financial instruments

1) Categories and fair value of financial instruments

The fair value of financial assets and liabilities were 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) :

	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets carried at cost – current and noncurrent	<u>\$ 546,899</u>	-	-	-	-
Availableforsale financial assets – current and noncurrent	<u>\$ 2,211,546</u>	<u>2,211,546</u>	-	-	<u>2,211,546</u>
Loans and receivables (note 1)	<u>\$ 10,142,281</u>	-	-	-	-
Financial liabilities measured at amortized cost (note 2)	<u>\$ 1,769,480</u>	-	-	-	-

	December 31, 2016				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets carried at cost – current and noncurrent	<u>\$ 449,582</u>	-	-	-	-
Availableforsale financial assets – current and noncurrent	<u>\$ 3,246,512</u>	<u>3,246,512</u>	-	-	<u>3,246,512</u>
Loans and receivables (note 1)	<u>\$ 10,458,153</u>	-	-	-	-
Financial liabilities measured at amortized cost (note 2)	<u>\$ 1,455,387</u>	-	-	-	-

	January 1, 2016				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets carried at cost – current and noncurrent	<u>\$ 495,041</u>	-	-	-	-
Availableforsale financial assets – current and noncurrent	<u>\$ 8,729,292</u>	<u>8,729,292</u>	-	-	<u>8,729,292</u>
Loans and receivables (note 1)	<u>\$ 7,815,739</u>	-	-	-	-
Financial liabilities measured at amortized cost (note 2)	<u>\$ 1,966,703</u>	-	-	-	-

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable, other receivables, other financial assets, and long-term receivable.

Note 2: The balances included financial liabilities measured at amortized cost, which comprised notes payable, accounts payable, other payables and short term loans.

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

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Financial instruments trade in active markets is based on quoted market prices.

The market prices from the main exchanges and government bond exchanges are the basis of the fair value of OTC equity instruments and debt instruments which have a quoted market price in an active market.

#### 3) Transfer between levels

For the years ended in December 31, 2017 and 2016, there was no transfer between levels.

#### (t) Financial risk management

##### (i) Overview

The nature and the extent of the Group's risks arising from financial instruments, which include credit risk, liquidity risk and market risk, are discussed below. Also, the Group's objectives, policies and procedures of measuring and managing risks are discussed below.

For more quantitative information about the financial instruments, please refer to the other related notes of the notes to the financial statements.

##### (ii) Risk management framework

The Group's risk management policies are established to identify and analyze the risks faced by the Company, 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 its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

##### (iii) Credit risk

Credit risk means the potential loss of the Group if the counterparty involved in that transaction defaults. The primary potential credit risk is from financial instruments like accounts receivable and equity securities.

#### 1) Accounts receivables 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 Company'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 establishes an impairment allowance that represents its estimate of

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are 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 does not have compliance issues and no significant credit risk.

#### 3) Guarantees

The Group's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies.

#### (iv) Liquidity risk

Liquidity risk is a risk that the Group is unable to meet 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 much 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 Company's reputation.

#### (v) Market risk

Market risk is a 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 the return.

#### 1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency. The currencies used in these transactions are denominated in USD, EUR, JPY, and RMB.

The exchange gains or losses of trade receivables in foreign currencies resulting from the changes in exchange rates are offset against the exchange losses or gains of short-term borrowings in foreign currencies; thus, the exposure to foreign

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

currency risk is insignificant.

The interest is denominated in the same currency as borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

The investments of other subsidiaries of the Company are not for hedging.

#### 2) Interest rate risk

The Group's interest rate risk arises from short-term and long-term loans bearing floating interest rates. Future cash flow will be affected by a change in market interest rate.

#### 3) Other market risk

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

#### (u) Capital management

The Group's objectives in managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders 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 amount of dividends paid to shareholders, return capital to shareholders, and issue new shares or sell assets to reduce debts.

The Group manages capital by the debt to equity ratio. Such ratio is calculated as net liabilities divided by total capital. Net liabilities represent the total amount of liabilities on the balance sheet minus cash and cash equivalents. The total amount of capital represents all the equity components (share capital, capital surplus, retained earnings, and other equity) plus net liabilities.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Group's debt to equity ratios at the balance sheet date were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Total liabilities	\$ 26,064,439	26,027,935	27,433,730
Less: cash and cash equivalents	(2,266,220)	(1,084,835)	(2,474,406)
Net debt	23,798,219	24,943,100	24,959,324
Total capital	49,092,452	50,187,278	52,468,812
Adjusted capital	<b>\$ 72,890,671</b>	<b>75,130,378</b>	<b>77,428,136</b>
Debt to equity ratio	<b>32.65%</b>	<b>33.20%</b>	<b>32.24%</b>

#### (7) Related-party transactions:

##### (a) Names and relationship with related parties

The following are entities that have had transactions with related parties and the Company's subsidiaries during the periods covered in the non consolidated financial statements.

<b>Name of related party</b>	<b>Relationship with the Group</b>
AI-Jabail Fertilizer Company	Equity-method investee
TR Electronic Chemical Co.,Ltd.	The Company's jointly controlled entity
TR Electronic Chemical (Kunshan) Ltd.	The Company's jointly controlled entity's subsidiary
Council of Agriculture, Executive Yuan, R.O.C.	Individuals are those entities in which the Group has significant influence
TAIWAN FERTILIZER Legal Foundation	Other related parties

##### (b) Significant transactions with related parties

###### (i) Sale of Goods to Related Parties

The amounts of significant sales transactions and outstanding balances between the Group and related parties were as follows:

	<b>Sales</b>		<b>Receivables from related parties</b>		
	<b>For the years ended December 31</b>		<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
Other related parties	<b>\$ 11</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>-</b>

Prices charged for sales transactions with associates were not significantly different from those of non related parties.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(ii) Purchase of Goods from Related Parties

The amounts of significant purchase transactions and outstanding balances between the Group and related parties were as follows:

	<b>Purchases</b>		<b>Payables to Related Parties</b>		
	<b>For the years ended</b>		<b>December</b>	<b>December</b>	<b>January 1,</b>
	<b>December 31</b>				
	<b>2017</b>	<b>2016</b>			
AI-Jabail Fertilizer Company	<b>\$ 942,151</b>	<b>1,026,900</b>	<b>581,275</b>	<b>318,490</b>	<b>655,755</b>

	<b>Prepayments</b>		
	<b>December 31,</b>	<b>December</b>	<b>January 1,</b>
	<b>2017</b>	<b>31, 2016</b>	<b>2016</b>
AI-Jabail Fertilizer Company	<b>\$ 6,761</b>	<b>-</b>	<b>-</b>

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other normal vendors.

(iii) Others

- 1) TR Electronic Chemical Co., Ltd. (TR), a jointly controlled entity of the Corporation, had obtained a financing of US\$10,000 thousand from a bank, and the Corporation and Jing Chin International Limited Corporation, a shareholder of TR, guaranteed the repayment of this financing. When TR failed to make a repayment, the bank then requested the guarantors to repay the loan partially. Because the Corporation could only provide TR-in compliance with the “Regulations Governing the Granting of Loans and Endorsements and Guarantees by Public Companies” - with a limited amount of endorsement, the Corporation’s board approved the repayment of TR’s loan, as following.

<b>Due Date</b>	<b>Date of Repayment</b>	<b>Amount in USD</b>	<b>Amount in NTD</b>
March 27, 2014	June 27, 2014	\$ 4,570	144,641
April 26, 2015	April 24, 2015	3,300	102,610
March 27, 2016	March 31, 2016	2,147	70,026

Considering the weakening operating and repayment capability of TR, the Corporation recognized an impairment loss in 2015.

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

- 2) Other prepayment for related parties

	<b>Accounts receivable</b>		
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Jointly controlled entity	<b>\$ 455</b>	<b>455</b>	<b>-</b>

- 3) Hasbo Biotech Co., Ltd. conducted its liquidation procedures in October 2017. The relevant statutory procedures are expected to be completed in 2018, and it is expected to recover the amount of \$5,038,376, which has yet to be received.

- (c) Compensation of key management personnel

The compensation to directors and other key management personnel were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Salaries and other short-term employee benefits	\$ 66,417	79,821
Post-employment benefits	6,631	1,010
	<b>\$ 73,048</b>	<b>80,831</b>

**(8) Pledged assets:**

<b>Asset</b>	<b>Purpose of pledge</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Other financial assetnoncurrent	Pledge deposits	<b>\$ 31,550</b>	<b>19,800</b>	<b>19,800</b>

**(9) Commitments and contingencies:**

- (a) Significant commitments and contingencies

- (i) Significant commitments and contingencies were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Purchase real estate property	\$ 187,764	291,203	476,429
Purchase investment property	<b>\$ 793,858</b>	<b>1,544,474</b>	<b>1,713,486</b>

- (ii) Unused standby letters of credit

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
USD thousands	\$ 5,744	10,059	9,493
EUR thousands	<b>\$ 65</b>	<b>454</b>	<b>-</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(iii) The Corporation had guarantee notes payable for its debt as follow:

	<u>December 31,</u> <u>2017</u>	<u>December</u> <u>31, 2016</u>	<u>January 1,</u> <u>2016</u>
Guarantee notes payable	<u>\$ 12,167,420</u>	<u>11,995,100</u>	<u>16,095,126</u>

(b) Commitments

(i) Huaku Development Co., Ltd. (“Huaku”) filed an appeal with the Taipei District Civil Court (the “Court”) for the Corporation to pay a co-building trade business tax of \$38,370 thousand. The Court ruled that the Corporation should make this payment in June 2014. The Corporation brought this case to a High Court in August 2014; however, the High Court ruled denying in June 2015. Therefore, the Corporation lodged an appeal against the High Court judgment in July 2015, but the Supreme Court decided against the Corporation, so the conviction has been affirmed by the Supreme Court. The Corporation accrued a possible loss of \$38,370 thousand for this case in 2012 financial statements.

(ii) On June 25, 2013, the shareholders resolved that, in order to enhance the long-term business relationship with Saudi Arabian Basic Industries Corporation as well as to maintain the relationship with the Kingdom of Saudi Arabia (“Saudi Arabia”), the Corporation shall donate its share of Al-Jubail’s profit, with US\$50,000 thousand as the donation limit, to the government or organizations in Saudi Arabia.

In October 2013, the Corporation and Al-Jubail signed a Memorandum of Understanding (MOU); the main contents of the MOU are summarized as follows:

1) The Corporation agreed to donate US\$42,000 thousand by way of six equal semiannual installments of US\$7,000 thousand to the government or a nonprofit organization in Saudi Arabia. The first donation should be made by October 31, 2013.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 2) The donation will be funded from the dividends of Al-Jubail that have been declared and are to be distributed to the Corporation. Al-Jubail will keep the above funds in a separate account in its name in a local bank. As administrator of the donations, Al-Jubail should designate the recipient of the donation. The Corporation's donation was as follows:

<u>Period</u>	<u>Date of Donations</u>	<u>Amount in USD</u>	<u>Amount in NTD</u>
1st	October 2013	\$ 7,000	209,440
2nd	June, 2014	7,000	208,635
3rd	December, 2014	7,000	212,940
4th	March, 2015	7,000	223,650
5th	December, 2017	7,000	209,650

- (iii) On May 22, 2015, the Corporation's board of directors approved the issuance by Taifer (Cayman) International Group Co., Ltd. ("Corporation Cayman"), a 100% subsidiary, of a letter endorsing the request of TR Electronic Chemical (Kunshan) Ltd. (TR) for a bank financing of US\$3,000 thousand; the main contents of the letter are as follows:

- 1) Taifer Cayman will inform the bank once its equity interest in TR becomes less than 51%.
- 2) Taifer Cayman will maintain its management of and control over TR.
- 3) Taifer Cayman will provide TR with appropriate resources (including financial, employee and technology support) to help TR carry out its obligations.
- 4) If TR significantly breaches the contract, Taifer Cayman will take lawful measures to assist TR in fully repaying, or monitor the way TR repays, its loan, or in providing other collaterals to the bank.

- (iv) On October 14, 2016, the Corporation received a letter from the National Taxation Bureau of Taipei, Ministry of Finance, which notified the Corporation that it had not declared withholding tax in relation to donations to the government and non-profit organizations of Saudi Arabia from 2014 to 2016. According to Paragraph 1 of Article 114 of the Income Tax Act, the amount of withholding tax payable was \$140,065 thousand, and the Corporation paid it on October 28, 2016. The Corporation also accrued fines for this case in 2016.

#### **(10) Losses Due to Major Disasters: None**

#### **(11) Subsequent Events:**

According to the amendments to the "Income Tax Act" enacted by the office of the President of

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return. This increase does not affect the amounts of the current and deferred income taxes recognized on December 31, 2017. However, it will increase the Group's current and deferred tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and unused tax losses recognized on December 31, 2017, the deferred tax assets would increase by \$29,388 and 95,216.

#### (12) Other:

A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By item	For the years ended December 31					
	2017			2016		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 413,122	547,402	960,524	369,683	497,528	867,211
Health and labor insurance	33,841	25,769	59,610	32,082	25,690	57,772
Pension	22,181	29,443	51,624	23,533	20,500	44,033
Others	18,564	12,677	31,241	17,133	31,951	49,084
Depreciation	667,129	47,845	714,974	589,429	56,074	645,503
Amortization	73,101	11,459	84,560	70,471	11,444	81,915

The depreciation of non-operating income and expenses of the Group in 2017 and 2016 were \$17,539 thousands and \$13,673 thousands, respectively.

#### (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: None
- (ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/guarantees to third parties on behalf of parent company	Endorsements/guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	Taiwan Fertilizer Co., Ltd. (the "Company")	IAIFER (CAMBODIA) CO., LTD	Subsidiary	39,501	13,500	13,500	13,500	-	0.03%	24,549,953			

# TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Note 1: (1) A subsidiary in which the Group directly or indirectly holds more than 50% of its common shares.

(2) The financial guarantee provided by the Group based on its shareholding due to joint venture relationship.

(3) The parent company which directly or indirectly holds more than 50% of the common shares of the Group.

Note 2: The total amount of the guarantee provided by the Corporation to any individual entity should not exceed 20% of the Corporation's net worth, or 50% of the individual net worth of Taifer.

Note 3: The total amount of guarantee should not exceed 50% of the Corporation's net worth.

(iii) Securities held as of December 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Category and name of security	Marketable Securities Type/Name and Issuer	Relationship with company	Account title	Shares/Units (thousands)	Ending balance		Fair value	Highest	Note
					Carrying value	Percentage of ownership (%)		Percentage of ownership (%)	
Taiwan Fertilizer Co., Ltd.	<u>Mutual funds</u>	—	Available-for-sale financial assets - current	16,079	200,439	- %	200,439	-%	
	Mega Diamond Money Market Fund	—	Available-for-sale financial assets - current	63,961	941,983	- %	941,983	-%	
	Jih Sun Money Market Fund	—	Available-for-sale financial assets - current	11,665	150,457	- %	150,457	-%	
	Jih Sun Asian High Yield Bond Fund	—	Available-for-sale financial assets - current	11,267	148,386	- %	148,386	-%	
	Fuh Hua Strategic High Income Fund of Funds	—	Available-for-sale financial assets - current	14,369	151,768	- %	151,768	-%	
	Nomura Global Short Duration Bond Fund	—	Available-for-sale financial assets - current	6,634	91,703	- %	91,703	-%	
	JPMorgan (Taiwan) Pacific Balanced Fund	—	Available-for-sale financial assets - current	2,067	106,455	- %	106,455	-%	
	Fuh Hwa Digital Economy Fund	—	Available-for-sale financial assets - current	14,996	151,762	- %	151,762	-%	
	PineBridge Preferred Securities Income Fund	—	Available-for-sale financial assets - current	5,874	73,185	- %	73,185	-%	
	Manulife Superior Selection China Fund	—	Available-for-sale financial assets - current	2,503	24,624	- %	24,624	-%	
	FSITC Global Utilities and Infrastructure Fund	—	Financial assets carried at cost - noncurrent	6,000	60,000	10.00%	47,545	0.10%	
	<u>Ordinary shares</u>	—	Financial assets carried at cost - noncurrent	20,000	200,000	18.50%	174,160	0.19%	
	Eminent Venture Capital Corporation	—	Financial assets carried at cost - noncurrent	15,000	150,000	16.56%	149,550	0.17%	
	Eminent III VC Corp	—	Financial assets carried at cost - noncurrent	13,872	52,800	2.00%	1,025,421	0.02%	
	Taiwan Stock Exchange Corporation	—	Financial assets carried at cost - noncurrent	1,951	19,512	9.76%	16,499	0.10%	
	Top Taiwan V Venture Capital Co., Ltd	—	Financial assets carried at cost - noncurrent	3,147	20,989	10.31%	29,111	0.10%	
	Visgeneer Inc.	—	Financial assets carried at cost - noncurrent	741	7,667	16.67%	14,419	0.17%	
	TaiAn Technologies Corporation	—	Financial assets carried at cost - noncurrent	3,360	33,600	19.75%	35,212	0.20%	
	TSCBio Ventures Capital Co.	—	Financial assets carried at cost - noncurrent	1,500	-	6.71%	3,257	0.07%	
	Ding-Tang	—	Financial assets carried at cost - noncurrent	405	-	0.76%	1,139	0.01%	
Phalanx Biotech Co., Ltd.	—	Financial assets carried at cost - noncurrent	4,167	2,331	15.16%	10,668	0.15%		
Bion tech Inc.	—	Available-for-sale financial assets - current	9,202	141,254	0.36%	141,254	-%		
China Petrochemical Development Corporation	—	Available-for-sale financial assets - current	-	29,531	- %	29,531	-%		
<u>Bonds</u>	—	Available-for-sale financial assets - current	-	-	- %	-	-%		
International Bonds: Mizuho Financial Group	—	Available-for-sale financial assets - current	-	-	- %	-	-%		

Note 1: The market value was calculated on the basis of the net asset value as of the balance sheet date.

Note 2: The market value was calculated on the basis of the closing price on the Taiwan Stock Exchange as of the balance sheet date.

Note 3: The market value was calculated on the basis of the unaudited financial statement for the same period.

Note 4: The market value was calculated on the basis of the audited financial statement for the most recent

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

period.

Note 5: The market value was calculated on the basis of the closing rate on the Taiwan Stock Exchange as of the balance sheet date.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$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	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
Taiwan Fertilizer Co., Ltd.	Mega Diamond Money Market Fund	Available-for-sale financial assets - current	-	-	153,746	1,909,265	16,079	200,000	153,746	1,900,000	1,910,327	10,327	16,079	200,439
Taiwan Fertilizer Co., Ltd.	Jih Sun Money Market Fund	Available-for-sale financial assets - current	-	-	84,947	1,246,145	63,961	940,000	84,947	1,240,000	1,248,022	8,022	63,961	941,983

Note: Unrealized gain and loss on financial assets were recognized.

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

(In Thousands of New Taiwan Dollars)

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

(In Thousands of New Taiwan Dollars)

- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 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)	
Taiwan Fertilizer Co., Ltd.	AI-Jabail Fertilizer Company	Equity-method investee	Purchase	942,151	14.77%	Same as those for third parties	Determined under the considerations of international market price and production cost	30 days	(581,274)	37%	-

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
Taiwan Fertilizer Co., Ltd.	TR ELECTRONIC CHEMICAL	Jointly controlled entity	Other receivable 317,277	-	317,277	-	-	317,277

**TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

	CO.,LTD.		
--	----------	--	--

(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			Percentage of the consolidated net revenue or total assets
				Account name	Amount	Trading terms	
0	Taiwan Fertilizer Co., Ltd.	Taiwan Yes Deep Ocean Water Co., Ltd.	1	Guarantee deposits received	1,800	were not significantly different from others	-%
		Taiwan Yes Deep Ocean Water Co., Ltd.	1	Sales	3,754	were not significantly different from others	0.03%
		Taiwan Yes Deep Ocean Water Co., Ltd.	1	Rental revenue	9,216	were not significantly different from others	0.08%
		Taifer Chemicals International Inc	1	Rental revenue	7,403	were not significantly different from others	0.06%
		TAIFER (CAMBODIA) CO., LTD	1	Accounts receivable	801	were not significantly different from others	-%
1	Taiwan Yes Deep Ocean Water Co., Ltd.	Hasbo Biotech Co., Ltd.	3	Rental revenue	3,313	were not significantly different from others	0.03%

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2017 (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, 2017			Highest Percentage of ownership	Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value				
Taiwan Fertilizer Co., Ltd.	Al-Jubail Fertilizer Company	Kingdom of Saudi Arabia	Manufacture of urea, 2-EH (2-ethyl hexanol), and DOP (dioctyl phthalate)	3,050,000	3,050,000	7	50.00%	9,538,520	50.00%	1,323,622	622,846	Associate
"	Taifer Chemicals International Inc	Taiwan	International trade; wholesale of fertilizer, tobacco, liquor, beverage, forage, machinery, electrical equipment, etc.; development, operation and management of residential buildings and factory buildings; special zone development; investment in and construction of public works; development of new towns and districts; agent services on regional district requisition; land adjustment; and real estate rental or leasing	126,300	126,300	5,500	100.00%	79,001	100.00%	5,587	5,414	Subsidiary
"	Taiwan Yes Deep Ocean Water Co., Ltd.	Taiwan	Wholesale of drinks, food and grocery and other articles for daily use; tobacco and liquor; glass and pottery; hygiene products; fertilizers and other chemical products; and cosmetics; and international trade	1,224,235	1,224,235	25,763	100.00%	388,870	100.00%	(48,989)	(80,255)	Subsidiary
"	TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	Cayman Islands	Investment and holding	321,990	321,990	11	100.00%	-	100.00%	-	-	Subsidiary
"		Taiwan	Wholesale and retail of products for organic agriculture	-	100,000	8,000	33.33%	74,158	100.00%	(36,993)	(25,306)	Note 1
"	TAIFER (CAMBODIA) CO., LTD	Cambodia	International trade; wholesale of fertilizer	40,052	40,052	-	100.00%	27,683	100.00%	1,759	1,759	Subsidiary
"	TAIFER INTERNATIONAL (SAMOA) CO., LTD.	Samoa	Investment and holding	9,348	9,348	-	100.00%	8,928	100.00%	-	-	Subsidiary
"		Taiwan	Manufacture and	400,000	-	40,000	100.00%	397,919	100.00%	(2,081)	(2,081)	Subsidiary

# TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

## Notes to the Consolidated Financial Statements

TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	TR ELECTRONIC CHEMICAL CO., LTD.	Cayman Islands	wholesale of fertilizer Investment and holding	321,962	321,962	-	51.00%	-	51.00%	-	No applicable	Jointly controlled entity
Taiwan Yes Deep Ocean Water Co., Ltd.	Hasbo Biotech Co., Ltd.	Taiwan	Wholesale of Nonalcoholic Beverages and Cosmetics	240,000	240,000	-	-%	-	-	(4,063)	-	Subsidiary (Note 2)
Taifer Chemicals International Inc.	TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD.	Samoa	Investment and holding	42,618	42,618	-	100.00%	54,150	100.00%	4,002	-	Subsidiary
TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD.	TAIFER CHEMICAL INTERNATIONAL CO., LTD.	Mongolia	Real estate rental and leasing	41,077	41,077	-	100.00%	53,895	100.00%	4,012	-	Subsidiary

Note 1: Taifer Biotech Co., Ltd. was renamed to Taiwan Agricultural Global Marketing Co., Ltd. and MITAGRI Co., Ltd. on August 16, 2016 and June 28, 2017, respectively. Afterward, since the Group subscribed to additional shares of MITAGRI Co., Ltd. at a percentage different from its existing ownership percentage and the directors and supervisors of MITAGRI Co., Ltd. were re-elected during the provisional meeting of shareholders, the Group no longer has any significant influence over MITAGRI Co., Ltd. (see note 6(f))

Note 2: The liquidation procedure was conducted in October 2017, and the relevant statutory procedures have not yet been completed up to the date of our auditors' report.

(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, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017	Net income (losses) of the investee	Percentage of ownership	Highest percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow							
TR Electronic Chemical (Kunshan) Ltd.	Manufacture of nitric acid, hydrofluoric acid, ammonia, phosphoric acid, oxalic acid, ammonia fluoride and LCD and IC Stripper	US\$21,500 (NT\$639,840) (note 4)	()	US\$10,965 (NT\$326,318) (note 4)	-	-	US\$10,965 (NT\$326,318) (note 4)	US\$- (NT\$ - ) (note 1 and 5)	51.00%	-%	US\$- (NT\$ - ) (note 6)	US\$- (NT\$ - ) (note 4)	-

- (ii) Limitation on investment in Mainland China:

	Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
	NT\$ 326,318 (US\$ 10,965 ) (note 4)	NT\$ 326,318 (US\$ 10,965 ) (note 4)	NT\$ 29,455,471 (note 2)

Note 1: The Group applied for the cessation of its operations to the local court on March 17, 2017.

Note 2: The limit is based on the "Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China" issued by the Investment Commission under the Ministry of Economic Affairs; the amount is 60% of shareholders' equity or of consolidated shareholders' equity.

Note 3: Indirect investment in mainland China through a subsidiary in a third place. (Investor: TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.)

Note 4: The foreign currency amounts of original investment amount and carrying value were translated into New Taiwan dollars at the exchange rate 29.76 as of December 31, 2017.

Note 5: The foreign currency amount of investment gain/loss was translated into New Taiwan dollars at an average exchange rate 30.4315 for the year ended December 31, 2017.

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Note 6: As of June 30, 2015, the investment accounted for using the equity method balance of the Corporation was zero, so the Corporation didn't recognize income (loss) of the investment.

(iii) Significant transactions: None

#### (14) Segment information:

##### (a) General information

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were fertilizer and chemical and construction (rental is included).

##### (b) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, excluding any extraordinary activity and foreign exchange gain or losses, because taxation, extraordinary activity and foreign exchange gains or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 "Significant accounting policies" except for the recognition and measurement of pension cost, which is on a cash basis. The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

The Group's operating segment information and reconciliation were as follows:

<b>For the year ended December 31, 2017</b>	<b>Fertilizer and chemical</b>	<b>Construction</b>	<b>Others</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
Revenue from external customers	\$ 10,162,750	1,142,325	353,911	-	11,658,986
Intersegment revenues	-	14,035	2,085	(16,120)	-
Total revenue	<b>\$ 10,162,750</b>	<b>1,156,360</b>	<b>355,996</b>	<b>(16,120)</b>	<b>11,658,986</b>
Other gains and losses			<b>(94,983)</b>	-	1,227,938
Finance costs					(208,886)
Share of profit of associates and joint ventures accounted for using equity method					(555)
Other income					617,003
Reportable segment profit or loss					<u>198,553</u>
					<b>\$ 1,834,053</b>

## TAIWAN FERTILIZER CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

For the year ended December 31, 2016 (after adjusted)	Fertilizer and chemical	Construction	Others	Adjustment and eliminations	Total
Revenue from external customers	\$ 10,021,634	1,757,582	461,704	-	12,240,920
Intersegment revenues	-	14,035	2,085	(16,120)	-
Total revenue	<u>\$ 10,021,634</u>	<u>1,771,617</u>	<u>463,789</u>	<u>(16,120)</u>	<u>12,240,920</u>
	<u>\$ 336,716</u>	<u>413,224</u>	<u>(154,246)</u>	<u>-</u>	595,694
Other gains and losses					(522,467)
Finance costs					(7,029)
Share of profit of associates and joint ventures accounted for using equity method					(187,213)
Other income					168,317
Reportable segment profit or loss					<u>\$ 47,302</u>
Reportable segment assets					
December 31, 2017	<u>\$ 19,865,770</u>	<u>53,792,611</u>	<u>1,501,111</u>	<u>(2,601)</u>	<u>75,156,891</u>
December 31, 2016(after adjusted)	<u>\$ 34,351,726</u>	<u>39,795,720</u>	<u>2,245,268</u>	<u>(177,501)</u>	<u>76,215,213</u>
January 1, 2016(after adjusted)	<u>\$ 34,109,423</u>	<u>43,383,989</u>	<u>2,459,069</u>	<u>(49,939)</u>	<u>79,902,542</u>
Reportable segment liabilities					
December 31, 2017	<u>\$ 5,604,178</u>	<u>20,390,728</u>	<u>72,135</u>	<u>(2,601)</u>	<u>26,064,440</u>
December 31, 2016(after adjusted)	<u>\$ 5,078,343</u>	<u>20,853,497</u>	<u>240,301</u>	<u>(144,206)</u>	<u>26,027,935</u>
January 1, 2016(after adjusted)	<u>\$ 6,057,417</u>	<u>21,330,237</u>	<u>192,768</u>	<u>(146,692)</u>	<u>27,433,730</u>

(c) Geographic information

The revenue-generating units of the Group were mainly in Republic of China. Thus, the disclosure of geographical information was not required.

(d) Major customer

The Corporation and its subsidiaries had no sales to a single customer that were at least 10% of total sales in 2017 and 2016.

## **V. The most recent annual individual financial report**

### **Independent Auditors' Report**

To the Board of Directors of Taiwan Fertilizer Co., Ltd:

#### **Opinion**

We have audited the financial statements of Taiwan Fertilizer Co., Ltd (“the Company”), which comprise the non-consolidated statement of financial position as of December 31, 2017 and 2016, and the non-consolidated statement of comprehensive income, non-consolidated statement of changes in equity and non-consolidated statement of cash flows for the year ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (refer to the Other Matters paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

#### **Basis for Opinion**

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

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017 of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters that, in our professional judgment, should be communicated are as follows:

1. Impairment Assessment of Investments Accounted for by the Equity Method (Including Goodwill and Intangible Assets with Indefinite Useful Lives)

Please refer to notes 4(h), 5 and 6(e) of the notes to the recognition of impairment assessment of investments accounted for by the equity method, assumptions used and uncertainties considered in determining investments accounted for by the equity method, investments for impairment loss and obsolescence and balances of impairment loss and obsolescence, respectively.

(a) Key audit matters:

As described in Note 6(e) of the accompanying financial statements, the Company acquired control over Taiwan Yes Deep Ocean Water Co., Ltd. (“Taiwan Yes”) on January 7, 2013, which was accounted for as acquisition using the equity method (including the goodwill and trademark with indefinite useful lives). In accordance with IAS 36 “Impairment of Assets”, goodwill and intangible assets with indefinite useful lives should be tested for impairment annually; and based on the estimated future cash flows of Taiwan Yes (the cash-generating unit), the recoverable amount was evaluated in order to determine whether there is any impairment of the aforementioned investment accounted for by using the equity method (including the goodwill and intangible assets with indefinite useful lives). Since the estimated future cash flows requires management’s forecasting of the industry overview and

the future operating performance of Taiwan Yes, should the situation change, the recoverable amount will be affected and an impairment loss will be incurred. Therefore, the impairment assessment of equity-method investments has been identified as a key audit matter.

(b) Auditing procedures performed:

Our main audit procedures performed in response to this key audit matter included evaluating the rationality of the goodwill of the recoverable amount generated from the cash flow forecasted for the next five years, which are reviewed regularly by the management. The management reviews the disclosure of the report when identifying loss of impairment, whether timely and appropriately reflected in the financial report; accessing the reasonableness of the forecasting method used by the management and the discount rate, and comparing the discount rate with external information; Verifying the assumptions of the management according to external relevant information; professionally the reasonableness of major assumptions (including the expected growth rate, discount rate and profit rate) used in the model.

### **Other Matter**

We did not audit the financial statements as of and for the years ended December 31, 2017 of certain investees, but such financial statements had been audited by other auditors, whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included in the Corporation's financial statements for these investees, is based solely on the reports of the other auditors. As of December 31, 2017, the investments in the aforementioned investees is 12.70% (\$9,538,520 thousand), of the Corporation's total assets. For the years ended December 31, 2017, the investment income on the above said investees is 34.24% (\$622,846 thousand) of the Corporation's income before income tax.

The financial statements of the Company for the year ended December 31, 2016 were audited by other auditors, and an auditors' report with unqualified opinion was issued on March 28, 2017. As stated in Note 4 (u), since the previous financial statements of certain associates accounted for using equity method were not prepared in accordance with the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations (together referred to as "IFRSs"), the investments accounted for using equity method had decreased by \$601,263 and \$502,589; the deferred income tax liabilities had decreased by \$102,215 and \$85,440; the retained earnings had decreased by \$474,024 and \$417,317; other equity interest had decreased by \$25,024 and increased by \$169 as of January 1 and December 31, 2017, respectively. In addition, the share of profit of associates and joint ventures accounted for using equity method had increased by \$68,321; the income tax expenses had increased by \$11,615; the exchange differences on translation of foreign operations had increased by \$30,353; income tax in relation to the items that may be reclassified subsequently to profit or loss had decreased by \$5,160 for the year ended December 31, 2016. The Company has amended its non-consolidated financial statements for the year ended December 31, 2016. The former auditor, however, has not signed the auditor's report after the amendment of the non-consolidated financial statements. We have reviewed the adjusting entries through necessary procedures. In our opinion, the adjusting entries are reasonable and are entered properly.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group 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 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 Kuo-Yang Tseng and Heng-Sheng Lin.  
KPMG

Taipei, Taiwan (Republic of China)

March 29, 2018

#### **Notes to Readers**

The accompanying parent company only financial statements are intended only to present the statement of financial position, financial performance and its 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 parent company only financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying parent company only 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 auditors' report and parent company only financial statements, the Chinese version shall prevail.

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)

**TAIWAN FERTILIZER CO., LTD**

**Balance Sheets**

**December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

Assets		December 31, 2017		December 31, 2016		January 1, 2016				Liabilities and Equity		December 31, 2017		December 31, 2016		January 1, 2016	
		Amount	%	Amount	%	Amount	%					Amount	%	Amount	%	Amount	%
<b>Current assets:</b>										<b>Current liabilities:</b>							
1100	Cash and cash equivalents(note)	\$ 1,755,104	2	947,774	1	2,349,622	3	2150	Notes payable(note)	\$ 436	-	6,890	-	2,213	-		
1125	Current available-for-sale financial assets, net(note)	2,182,015	3	3,246,512	4	8,729,292	11	2170	Accounts payable(note)	1,203,719	2	880,304	1	1,182,132	2		
1150	Notes receivable, net(note)	30,270	-	365,123	1	432,542	-	2200	Other payables(note)	540,793	1	473,880	1	738,336	1		
1170	Accounts receivable, net(note)	1,524,398	2	1,294,561	2	1,657,690	2	2230	Current tax liabilities(note)	125,813	-	7,465	-	16,140	-		
1220	Current tax assets(note)	-	-	-	-	256,103	-	2310	Advance receipts(note)	240,980	-	179,265	-	201,490	-		
1200	Other receivables, net(note)	25,210	-	10,695	-	924	-	2399	Other current liabilities, others(note)	51,276	-	34,546	-	60,732	-		
130X	Inventories(note)	1,790,020	3	1,726,327	3	2,099,270	2			<u>2,163,017</u>	<u>3</u>	<u>1,582,350</u>	<u>2</u>	<u>2,201,043</u>	<u>3</u>		
1410	Prepayments(note)	362,384	-	233,687	-	488,595	1		<b>Non-Current liabilities:</b>								
1476	Other current financial assets(note)	5,918,160	8	7,205,000	9	2,600,000	3	2550	Non-current provisions(note)	223,648	-	223,648	-	327,750	-		
1470	Other current assets(note)	25,251	-	5,393	-	31,264	-	2570	Deferred tax liabilities(note)	7,014,086	9	7,129,097	10	7,191,083	9		
		<u>13,612,812</u>	<u>18</u>	<u>15,035,072</u>	<u>20</u>	<u>18,645,302</u>	<u>22</u>	2630	Long-term deferred revenue(note)	16,173,803	22	16,584,651	22	16,977,124	21		
	<b>Non-current assets:</b>							2640	Net defined benefit liability, non-current(note)	112,063	-	94,353	-	468,040	1		
1523	Non-current available-for-sale financial assets, net(note)	29,531	-	-	-	-	-	2645	Guarantee deposits received(note)	309,813	-	317,189	-	221,927	-		
1543	Non-current financial assets at cost, net(note)	546,899	1	449,582	-	495,041	1			<u>23,833,413</u>	<u>31</u>	<u>24,348,938</u>	<u>32</u>	<u>25,185,924</u>	<u>31</u>		
1550	Investments accounted for using equity method, net(note)	10,515,078	14	11,043,492	15	11,870,352	15	3100	<b>Total liabilities</b>	<u>25,996,430</u>	<u>34</u>	<u>25,931,288</u>	<u>34</u>	<u>27,386,967</u>	<u>34</u>		
1600	Property, plant and equipment(note)	13,640,123	18	26,619,098	35	26,918,099	34	3200	Capital stock(note)	9,800,000	13	9,800,000	13	9,800,000	12		
1760	Investment property, net(note)	34,920,398	47	21,156,703	28	19,773,087	25	3310	Capital surplus(note)	2,232,791	3	2,232,791	3	2,237,678	3		
1780	Intangible assets(note)	28,922	-	20,567	-	28,311	-	3320	Legal reserve(note)	3,683,109	5	3,683,109	4	3,440,401	4		
1840	Deferred tax assets(note)	168,705	-	155,695	-	260,690	-	3350	Special reserve(note)	31,449,960	42	33,590,309	44	33,590,944	42		
1930	Long-term notes and accounts receivable, net(note)	313,860	-	385,490	-	540,884	1	3400	Total unappropriated retained earnings (accumulated deficit)(note)	1,961,271	3	286,015	1	2,672,036	4		
1980	Other non-current financial assets(note)	13,500	-	13,800	-	13,800	-		Other equity interest(note)	(34,679)	-	595,054	1	727,753	1		
1985	Long-term prepaid rents(note)	1,180,739	2	1,215,950	2	1,286,561	2		<b>Total equity</b>	<u>49,092,452</u>	<u>66</u>	<u>50,187,278</u>	<u>66</u>	<u>52,468,812</u>	<u>66</u>		
1990	Other non-current assets, others(note)	118,315	-	23,117	-	23,652	-										
		<u>61,476,070</u>	<u>82</u>	<u>61,083,494</u>	<u>80</u>	<u>61,210,477</u>	<u>78</u>										
	<b>Total assets</b>	<u>\$ 75,088,882</u>	<u>100</u>	<u>76,118,566</u>	<u>100</u>	<u>79,855,779</u>	<u>100</u>		<b>Total liabilities and equity</b>	<u>\$ 75,088,882</u>	<u>100</u>	<u>76,118,566</u>	<u>100</u>	<u>79,855,779</u>	<u>100</u>		

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)

TAIWAN FERTILIZER CO., LTD

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

	2017		2016	
	Amount	%	Amount	%
4000 Operating revenue	\$ 11,346,419	100	11,893,266	100
5000 Operating costs(note)	(8,802,286)	(78)	(9,917,534)	(84)
5900 <b>Gross profit (loss) from operations</b>	<u>2,544,133</u>	<u>22</u>	<u>1,975,732</u>	<u>16</u>
6100 Selling expenses(note)	(194,857)	(2)	(235,361)	(2)
6200 Administrative expenses(note)	(991,134)	(9)	(999,871)	(8)
6300 Research and development expenses(note)	(82,267)	(1)	(65,285)	(1)
<b>Total operating expenses</b>	<u>(1,268,258)</u>	<u>(12)</u>	<u>(1,300,517)</u>	<u>(11)</u>
6900	1,275,875	10	675,215	5
7010 Total other income	193,867	2	162,425	1
7020 Other gains and losses, net	(173,163)	(2)	(186,529)	(1)
7050 Finance costs, net	(4)	-	(6,711)	-
7060 Share of profit (loss) of associates and joint ventures accounted for using equity method, net	522,375	5	(642,518)	(6)
7900 <b>Profit (loss) from continuing operations before tax</b>	1,818,950	15	1,882	(1)
Less: Tax income (expense)				
7950	(199,824)	(2)	(74,679)	-
8200 <b>Profit (loss)</b>	<u>1,619,126</u>	<u>13</u>	<u>(72,797)</u>	<u>(1)</u>
8300 <b>Other comprehensive income:</b>				
8310 <b>Components of other comprehensive income that will not be reclassified to profit or loss</b>				
8311 Gains (losses) on remeasurements of defined benefit plans	(39,159)	-	(15,845)	-
8330 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	6,282	-	-	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6,658	-	2,694	-
	<u>(26,219)</u>	<u>-</u>	<u>(13,151)</u>	<u>-</u>
8360 <b>Other components of other comprehensive income that will not be reclassified to profit or loss</b>				
8361 Exchange differences on translation	-	-	-	-
8362 Unrealised gains (losses) on valuation of available-for-sale financial assets	49,729	-	20,580	-
8380 Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(818,037)	(7)	(182,011)	(2)
8399 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	138,575	1	28,732	-
Components of other comprehensive income that will be reclassified to profit or loss	<u>(629,733)</u>	<u>(6)</u>	<u>(132,699)</u>	<u>(2)</u>
8300 <b>Other comprehensive income, net</b>	<u>(655,952)</u>	<u>(6)</u>	<u>(145,850)</u>	<u>(2)</u>
<b>Total comprehensive income</b>	<u>\$ 963,174</u>	<u>7</u>	<u>(218,647)</u>	<u>(3)</u>
<b>Basic earnings per share</b>				
9750 <b>Basic earnings per share</b>	<u>\$ 1.65</u>		<u>(0.07)</u>	
9850 <b>Diluted earnings per share</b>	<u>\$ 1.65</u>		<u>(0.07)</u>	

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)

**TAIWAN FERTILIZER CO., LTD**

**Statements of Changes in Equity**

**For the years ended December 31, 2017 and 2016**

(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Retained earnings				Total other equity interest				Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest		
<b>Balance at January 1, 2016</b>	\$ 9,800,000	2,237,678	3,440,401	33,590,944	3,146,060	40,177,405	710,438	42,339	752,777	52,967,860	
Effects of retrospective application and retrospective restatement	-	-	-	-	(474,024)	(474,024)	(25,024)	-	(25,024)	(499,048)	
Equity at beginning of period after adjustments	9,800,000	2,237,678	3,440,401	33,590,944	2,672,036	39,703,381	685,414	42,339	727,753	52,468,812	
Profit (loss)	-	-	-	-	(72,797)	(72,797)	-	-	-	(72,797)	
Other comprehensive income	-	-	-	-	(13,151)	(13,151)	(153,279)	20,580	(132,699)	(145,850)	
Total comprehensive income	-	-	-	-	(85,948)	(85,948)	(153,279)	20,580	(132,699)	(218,647)	
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	242,708	-	(242,708)	-	-	-	-	-	
Cash dividends of ordinary share	-	-	-	-	(2,058,000)	(2,058,000)	-	-	-	(2,058,000)	
Reversal of special reserve	-	-	-	(635)	635	-	-	-	-	-	
Due to donated assets received	-	(4,887)	-	-	-	-	-	-	-	(4,887)	
Balance at December 31, 2016	9,800,000	2,232,791	3,683,109	33,590,309	286,015	37,559,433	532,135	62,919	595,054	50,187,278	
Effects of retrospective application and retrospective restatement	9,800,000	2,232,791	3,683,109	33,590,309	703,332	37,976,750	531,966	62,919	594,885	50,604,426	
Retrospective adjustment of equity attributable to former owner due to reorganization of entities under common control	-	-	-	-	(417,317)	(417,317)	169	-	169	(417,148)	
Equity at beginning of period after adjustments	19,600,000	4,465,582	7,366,218	67,180,618	572,030	75,118,866	1,064,270	125,838	1,190,108	100,374,556	
Profit (loss)	-	-	-	-	1,619,126	1,619,126	-	-	-	1,619,126	
Other comprehensive income	-	-	-	-	(26,219)	(26,219)	(679,462)	49,729	(629,733)	(655,952)	
Total comprehensive income	-	-	-	-	1,592,907	1,592,907	(679,462)	49,729	(629,733)	963,174	
Appropriation and distribution of retained earnings:											
Cash dividends of ordinary share	-	-	-	-	(2,058,000)	(2,058,000)	-	-	-	(2,058,000)	
Special reserve used to offset accumulated deficits	-	-	-	(2,030,304)	2,030,304	-	-	-	-	-	
Reversal of special reserve	-	-	-	(110,045)	110,045	-	-	-	-	-	
<b>Balance at December 31, 2017</b>	<b>\$ 19,600,000</b>	<b>4,465,582</b>	<b>7,366,218</b>	<b>65,040,269</b>	<b>2,247,286</b>	<b>74,653,773</b>	<b>384,808</b>	<b>175,567</b>	<b>560,375</b>	<b>99,279,730</b>	

Note: The Company's remuneration of directors of \$30,316 and remuneration of employees of \$45,474 for the years ended December 31, 2017, had been deducted from statements of

comprehensive income for the years ended December 31, 2017. The Company did not estimate any remuneration to employees, and directors and supervisors due to its loss in 2016.

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)

**TAIWAN FERTILIZER CO., LTD**

**Statements of Cash Flows**

**For the years ended December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from (used in) operating activities:</b>		
<b>Profit (loss) before tax</b>	\$ 1,818,950	1,882
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	721,182	659,673
Amortization expense	84,514	83,913
Interest expense	4	6,711
Interest income	(80,169)	(59,919)
Dividend income	(43,562)	(41,782)
Share of loss (profit) of subsidiaries, associates and joint ventures accounted for using equity method	(522,375)	642,518
Loss (gain) on disposal of property, plan and equipment	(101,610)	(3,584)
Loss (gain) on disposal of investment properties	24,569	-
Loss (gain) on disposal of intangible assets	(24,562)	-
Loss (gain) on disposal of investments	(21,788)	(23,381)
Impairment loss on financial assets	-	15,000
Reversal of impairment loss on financial assets	-	4,294
Unrealized foreign exchange loss (gain)	-	(3,757)
	241,381	-
	8,731	-
	861	-
<b>Total adjustments to reconcile profit (loss)</b>	<u>287,176</u>	<u>1,279,686</u>
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in notes receivable	334,853	67,419
Decrease (increase) in accounts receivable	(229,837)	358,709
Decrease (increase) in other receivable	(13,322)	(78,510)
Decrease (increase) in inventories	(63,693)	576,325
Decrease (increase) in prepayments	(128,696)	145,370
Decrease (increase) in other financial assets	(19,858)	25,871
Decrease (increase) in deferred debits	71,630	155,394
<b>Total changes in operating assets</b>	<u>(48,923)</u>	<u>1,250,578</u>
<b>Changes in operating liabilities:</b>		
Increase (decrease) in notes payable	(6,454)	4,677
Increase (decrease) in accounts payable	323,415	(493,967)
Increase (decrease) in other payable	71,515	130,878
Increase (decrease) in provisions	-	(38,370)
Increase (decrease) in receipts in advance	61,715	(22,225)
Increase (decrease) in other current liabilities	16,729	(26,186)
Increase (decrease) in net defined benefit liability	(21,449)	(389,532)
Increase (decrease) in deferred credits	(410,848)	(392,473)
<b>Total changes in operating liabilities</b>	<u>34,623</u>	<u>(1,227,198)</u>

<b>Total changes in operating assets and liabilities</b>	<u>(14,300)</u>	<u>23,380</u>
Cash inflow (outflow) generated from operations	2,091,826	1,304,948
Interest received	78,976	41,782
Dividends received	474,037	58,632
Interest paid	(4)	(6,711)
Dividends paid	-	247,184
Income taxes refund (paid)	<u>(67,282)</u>	<u>-</u>
<b>Net cash flows from (used in) operating activities</b>	<u>2,577,553</u>	<u>1,645,835</u>

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)

**TAIWAN FERTILIZER CO., LTD**

**Statements of Cash Flows (CONT'D)**

**For the years ended December 31, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at amortised cost	(150,000)	-
Acquisition of available-for-sale financial assets	(2,205,305)	(84,772)
Proceeds from disposal of available-for-sale financial assets	3,311,788	5,606,626
Proceeds from capital reduction of financial assets at cost	52,683	32,790
Acquisition of property, plant and equipment	(404,867)	(744,510)
Proceeds from disposal of property, plant and equipment	132,263	9,959
Decrease in refundable deposits	(95,198)	535
Acquisition of intangible assets	-	(5,558)
Cash payments to acquire subsidiaries and other business units	68,471	-
Acquisition of investment properties	(1,293,562)	(1,291,949)
Proceeds from disposal of investment properties	(408,260)	-
Decrease in other financial assets	1,287,140	(4,605,000)
<b>Net cash flows from (used in) investing activities</b>	<u>295,153</u>	<u>(1,081,879)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in guarantee deposits received	(7,376)	95,262
Cash dividends paid	(2,058,000)	(2,058,000)
<b>Net cash flows from (used in) financing activities</b>	<u>(2,065,376)</u>	<u>(1,962,738)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	-	(3,066)
<b>Net increase (decrease) in cash and cash equivalents</b>	807,330	(1,401,848)
<b>Cash and cash equivalents at beginning of period</b>	947,774	2,349,622
<b>Cash and cash equivalents at end of period</b>	<u><b>\$ 1,755,104</b></u>	<u><b>947,774</b></u>

**TAIWAN FERTILIZER CO., LTD**

**Notes to the Financial Statements**

**For the years ended December 31, 2017 and 2016**

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

**(1) Company history**

TAIWAN FERTILIZER CO., LTD (the “Company”) was incorporated in May 1946. The Company’s registered office address is located at 6F, No. 88, Nanjing E. Rd., Sec.2, Taipei, 10457, Taiwan. It manufactures and sells inorganic and organic fertilizers and other chemical products. The Company also constructs and leases real estate property. The Company’s shares has been listed on the Taiwan Stock Exchange since March 24, 1998.

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

The accompanying parent company only financial statements were approved and authorized for issue by the Corporation’s board of directors on March 29, 2018.

**(3) New standards, amendments and interpretations adopted:**

(c) 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, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Presentation of Financial Statements-Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendments to IAS 36 “Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets”	January 1, 2014
Amendments to IAS 39 “Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

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

(i) Amendments to IAS 36 “Recoverable Amount Disclosures for Non Financial Assets”

Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. In such cases, the amendments also require that the following be disclosed if the recoverable amount is based on fair value, less costs of disposal:

- 1) the level of the fair value hierarchy within which the fair value measurement is categorized; and
- 2) the valuation technique(s) used for fair value measurements categorized within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made.

The Company will include the required disclosures.

(d) 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, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Company can, and therefore, elected to early adopt the amendments to IFRS 9 “Prepayment features with negative compensation”:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

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

(i) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Company had equity investments classified as available-for-sale with a fair value of 2,211,546 thousand and financial assets measured at cost of 546,899 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Company has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Company estimated the application of IFRS 9’s classification requirements on January 1, 2018 resulting

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

in a decrease of \$105,066 in other equity interest, as well as the increase of \$105,066 in retained earnings, respectively.

#### 2) Impairment-Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company estimated that there would be no effect for the application of IFRS 9’s classification requirements.

#### 3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Company’s assessment included an analysis to identify data gaps against current processes and the Company plans to implement the system and controls changes that it believes will be necessary to capture the required data.

#### 4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

#### (ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

The Company has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements.

##### 1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers’ premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

##### 2) Advance Real Estate Receipts

As of advance receipts, the current guidelines do not stipulate whether there is any interest needs for them to be calculated. Under International Financial Reporting Standard No. 15 , it is stipulated that advance receipts should be assessed as to whether there is a significant financial component in order to adjust the amount of the promised consideration to reflect the impact of the time value of money.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

- (e) 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 IASB, but not yet endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
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 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

Those which may be relevant to The Company are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	<p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>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.</p>
January 13, 2016	IFRS 16 “Leases”	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> <li>• For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the</li> </ul>

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term.

- A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

October 12, 2017 Amendments to IAS 28  
“Long-term interests in  
associates and joint  
ventures”

The amendment to IAS 28, which addresses equity-accounted loss absorption by long-term interests, will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or ‘LTI’). It also involves the dual application of IAS 28 and IFRS 9 Financial Instruments.

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

#### **(4) Summary of significant accounting policies:**

The following significant accounting policies have been applied consistently to all periods presented in the non-consolidated financial statements.

##### **(a) Statement of compliance**

The non consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

##### **(b) Basis of Preparation**

###### **(i) Basis of measurement**

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

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- 2) Available-for-sale financial assets are measured at fair value; and
- 3) The net defined benefit liability is recognized as the present value of the defined benefit less the fair value of plan assets.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(ii) Functional and presentation currency

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

(c) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments during the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following accounts which are recognized in other comprehensive income:

- 1) Available-for-sale equity investment;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Company's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and are presented as exchange differences on translation of foreign financial statements in equity.

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

proportion of the translation difference is allocated to non-controlling interests. 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 Company disposes of any 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 non-controlling interest. When the Company disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

#### (d) Classification of current and non-current assets and liabilities

An asset is classified as current when:

- (i) It is expected to be realized, or intended to be sold or consumed, during 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 (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- (i) It is expected to be settled during the Company in its normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It 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.

All other liabilities are classified as non-current.

#### (e) Cash and cash equivalents

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

Cash comprises cash on hand and demand deposits. Cash equivalents are assets that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they conform to the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(f) Financial instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

(i) Financial assets

The Company classifies financial assets into the following categories: loans and receivables, and available for-sale financial assets.

1) Availablefor sale financial assets

Availableforsale financial assets are nonderivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Availableforsale financial assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on availableforsale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and included in the nonoperating income and expenses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using tradedate accounting.

“Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured” are measured at amortized cost, and included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date when the Company’s right to receive payment is established, which in the case of quoted securities is normally the exdividend date. Such dividend income is included in the nonoperating income and expenses.

Interest income from investment in bond security is recognized in profit or loss, under other income of nonoperating income and expenses.

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

#### 2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, other than insignificant interest on shortterm receivables. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Interest income is recognized in profit or loss, under other income.

#### 3) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than the one suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

its estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

The carrying amount of a financial asset is reduced for an impairment loss, except for trade receivables, in which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off against the allowance account. Any subsequent recovery from written off receivable is charged to the allowance account. Changes in the allowance accounts are recognized in profit or loss.

Reclassify the gains and impairment losses which were previously recognized in other comprehensive income to profit or loss when an impairment incurred.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment loss was recognized at the reversal date.

Impairment losses recognized on an available for sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and recoveries are recognized in profit or loss, under "other gains and losses, net".

4) Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On partial derecognition of a financial assets, the difference between the carrying

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available for sale financial assets is reclassified to profit or loss, under “other gains and losses, net”.

The Company separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is charged to profit or loss.

#### (ii) Financial liabilities and equity instruments

##### 1) Classification of debt or equity instruments

Debt or equity instruments issued by the Company are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

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 based on amount of consideration received less the direct issuance cost.

Interest related to the financial liability is recognized in profit or loss, under nonoperating income and expense. On conversion, financial liability is reclassified to equity, without recognizing any gain or loss.

##### 2) Other financial liabilities

At initial recognition, financial liabilities not classified as heldfortrading, or designated as at fair value through profit or loss, which comprise of loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, under finance cost.

##### 3) Other financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

noncash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in “nonoperating income and expenses”

#### 4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Company has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

#### 5) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder of a loss it incurs because a specified debtor fails to pay on due date in accordance with the original or modified terms of a debt instrument.

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Company is recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, these contracts are measured at the higher of (a) the amount of contractual obligation determined in accordance with IAS 37; or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

#### (g) Inventories

Inventories included Raw materials, finished goods, merchandise, and construction-in-progress—land and projects. 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.

#### (h) Subsidiaries

The subsidiaries in which the Company holds controlling interest are accounted for under equity method in the nonconsolidated financial statements. Under equity method, the net income, other comprehensive income and equity in the nonconsolidated financial statement are the same as those attributable to the owners of parent in the consolidated financial statements.

The changes in ownership of the subsidiaries are recognized as equity transaction.

#### (i) Investment in associates

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

Associates are those entities in which the Company has significant influence, but not control or joint control, over the 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 arising from the acquisition, less any accumulated impairment losses.

The financial statements include the Company's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align their accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes the Company's share of change in equity of the associate in capital reserves in proportion to its ownership.

Unrealized profits resulting from the transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Company's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any longterm interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the associate.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined based on the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss, under other gains and losses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance is expensed as incurred.

(iii) Depreciation

Depreciation is calculated on the depreciable amount of an asset using the straight-line basis over its useful life. The depreciable amount of an asset is determined based on the cost less its residual value. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period is recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Buildings	33-60 years
Machine	3-40 years
Instrument equipment	3-15 years
Miscellaneous equipment	3-15 years

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

<u>Item</u>	<u>Useful lives</u>	<u>Item</u>	<u>Useful lives</u>
Buildings:		Machine:	
Leasehold improvements and others	3 ~ 15 years	Production equipment	3 ~ 15 years
Buildings, warehouses, storage sheds	16 ~ 60 years	Storage tanks, power transmission systems, etc.	16 ~ 40 years

Depreciation methods, useful lives, and residual values are reviewed at each annual reporting date. If expectations differ from the previous estimate, the changes are accounted for as a changes in accounting estimate.

(iv) Reclassification as investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owneroccupied to investment property.

(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 or for administrative purposes. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment property is measured at initial acquisition cost less accumulated depreciation and accumulated impairment losses. The methods for depreciating and determining the useful life and residual valu of investment property are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property, bringing the investment property to the condition necessary for it to be available for use, and any borrowing cost that is eligible for capitalization.

An investment property is reclassified to property, plant and equipment at its carrying amount when the purpose of the investment property has been changed from investment to owner-occupied.

(l) Leased assets

(i) Lessor

Lease income from operating lease is recognized in profit or loss on a straightline basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease is 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 straightline basis so that the lease income received is reduced accordingly.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

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

(ii) Lessee

Other leases are accounted for operating leases and the lease assets are not recognized in the Company's nonconsolidated balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straightline 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.

Contingent rent is recognized as expense in the periods in which they are incurred.

(m) Intangible assets

(i) Other Intangible Assets

Other intangible assets that are acquired by the Company 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 expenditures, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Depreciable amount of intangible asset is calculated based on the cost of an asset less its residual values.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date when they are made available for use. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

Computer software cost	2~10 years
Customer relationships	10 years
Patent	8~9 years

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each financial year-end. Any change thereof is accounted for as a change in accounting estimate.

(n) Impairment – Non financial assets

The Company assesses non-financial assets for impairment (except for inventories, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount.

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value less costs to dispose and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such is deemed as an impairment loss, which is recognized immediately in profit or loss.

The Company assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss.

(o) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and an outflow of economic benefits is possibly 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.

(p) Revenue Recognition

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

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

#### (i) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- 1) The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2) The Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) The amount of revenue can be measured reliably;
- 4) It is probable that the economic benefits associated with the transaction will flow to the Corporation; and
- 5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the sale of property in the course of ordinary activities is recognized when the construction is completed and the property is transferred to the buyer. Until such revenue is recognized, deposits and installment payments received from sales of properties are carried in the parent company only balance sheets under current liabilities.

The allowance for sales returns and discounts is based on customer complaints, historical experience, and any factors that may affect the reasonable estimation of possible sales returns and discounts, and it is recognized as sales return and discount in the year of product sales.

#### (ii) Dividend and interest income

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

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

#### (q) 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.

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

#### (ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on (market yields of high quality corporate bonds or government bonds) bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of 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. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss immediately.

Re-measurement of net defined benefit liability (asset) (including actuarial gains, losses and the return on plan asset and changes in the effect of the asset ceiling, excluding any amounts included in net interest) is recognized in other comprehensive income (loss). The effect of re-measurement of the defined benefit plan is charged to retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and change in the present value of defined benefit obligation.

#### (iii) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for a defined benefit plan except that remeasurement is recognized in profit or loss.

#### (iv) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognises expense when it can no longer withdraw an offer of termination benefits or it recognises related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after the balance sheet date shall be discounted to their present value.

(v) 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 Company 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.

(r) Income Taxes

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

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

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 not recognized for the following:

- (i) Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).
- (ii) Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred taxes are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

- (i) if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
  - 1) levied by the same taxing authority; or
  - 2) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for unused tax losses available for carry-forward, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits and deductible temporary differences are also re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized.

(s) Earnings per share

Disclosures are made of basic and diluted earnings per share attributable to ordinary equity holders of the Company. The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as remuneration of employees and employee stock options.

(t) Operating segments

Please refer to the consolidated financial report of Pegatron Corporation for the years ended December 31, 2017 and 2016 for operating segments information.

(u) The reason and the effect of changes in accounting principles

Al Jubail Fertilizer Company, a material associate of the Company, has adopted the IFRSs since 2017. However, due to the local laws and regulations in Saudi Arabia, this associate did not prepare its previous financial statements in accordance with IFRSs. Therefore, the transactions and events in similar situation between the current and previous financial statements used different accounting policies.

According to International Accounting Standard No. 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, this accounting policy should be applied retrospectively.

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

The effect of the adjusted comparative information and changes in the accounting policy on the individual financial report of the Company in 2017 will be described as follows:

<u>January 1, 2016 Balance Sheet</u>	<u>Before adjusted</u>	<u>Changes in accounting principles</u>	<u>After justified</u>
Investments accounted for using equity method, net	\$ 12,471,615	(601,263)	11,870,352
Deferred tax liabilities	7,293,298	(102,215)	7,191,083
Retained earnings	40,177,405	(474,024)	39,703,381
Other equity	752,777	(25,024)	727,753
<u>December 31, 2016 Balance Sheet</u>	<u>Before adjusted</u>	<u>Changes in accounting principles</u>	<u>After justified</u>
Investments accounted for using equity method, net	\$ 11,546,081	(502,589)	11,043,492
Deferred tax liabilities	7,214,538	(85,440)	7,129,098
Retained earnings	37,976,750	(417,317)	37,559,433
Other equity	594,885	169	595,054

<u>Statements of Comprehensive Income</u>	<u>2016</u>		
	<u>Before adjusted</u>	<u>Changes in accounting principles</u>	<u>After justified</u>
Shares of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, and components of other comprehensive income that will be reclassified to profit or loss	\$ (710,839)	68,321	(642,518)
Tax income (expense)	(129,503)	(11,615)	(141,118)
Exchange differences on translation	(212,364)	30,353	(182,011)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	33,892	(5,160)	28,732
Basic earnings per share	(0.13)	0.06	(0.07)
Diluted earnings per share	(0.13)	0.06	(0.07)

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

The preparation of the financial statements in conformity with the IFRSs 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.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

Due to significant judgments involved and material impact on recognized amounts for consolidated financial report.

Regarding assumptions and estimation uncertainties, valuation has a significant risk of resulting in a material adjustment within the next financial year as following.

Impairment assessment of carrying amount of investment in subsidiaries

Determining whether carrying amount of investment in subsidiaries is impaired requires an estimation of the recoverable amount of the cash-generating units to which subsidiaries have been allocated. The calculation of the recoverable amount requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

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 uses the market observable inputs when measuring its assets and liabilities.

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

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

Please refer to notes listed below for assumptions used in measuring fair value.

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to Note 6(r), Financial instruments for assumptions used in measuring fair value.

**(6) Explanation of significant accounts:**

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

(a) Cash and cash equivalents

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Cash on hand	\$ 2,220	2,319	2,977
Demand deposits and checking accounts	376,864	945,455	1,046,645
Time deposits with original maturities less than 3 months	1,376,020	-	1,300,000
Cash and cash equivalents	<b>\$ 1,755,104</b>	<b>947,774</b>	<b>2,349,622</b>

- (i) Time deposits with original maturity of more than 3 months are recorded as other financial assets, and are classified as non-current if their maturities exceed one year, and as follow.

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Other current financial assets	\$ 5,918,160	7,205,000	2,600,000
Other non current financial assets	13,500	13,800	13,800
	<b>\$ 5,931,660</b>	<b>7,218,800</b>	<b>2,613,800</b>

- (ii) Refer to Note 6(r) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(b) Investment in financial assets

- (i) The components of financial assets were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Available for sale financial assets — current:			
Domestic listed shares	\$ 141,254	91,102	76,315
Mutual funds	2,040,761	3,155,410	8,652,977
Subtotal	2,182,015	3,246,512	8,729,292
Available for sale financial assets — noncurrent:			
Equity securities investment	29,531	-	-
Financial assets carried at cost - noncurrent			
Unlisted stocks	546,899	449,582	495,041
Total	<b>\$ 2,758,445</b>	<b>3,696,094</b>	<b>9,224,333</b>

- (ii) The available for sale financial assets held by the Company, and please refer to Note 6

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

- (r) for discussion the amount of other comprehensive gains and losses recognized by the company.
- (iii) The financial assets carried at cost held by the Company are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate of fair value cannot be reasonably determined, therefore, the Company management determines the fair value cannot be measured reliably.
- (iv) Because Green Cellulosity Corporation had a continued loss, the Corporation recognized an impairment loss of \$15,000 thousand for the year ended December 31, 2016.
- (v) On March 1, 2017, Eminent Venture Capital Company reduced its capital, and the Company received \$40,000 thousand as capital returns.
- (vi) As of March 1, 2016, Top Taiwan V Venture Capital Co., Ltd. reduced its capital, resulting in an increase in the capital returns of the Company amounting to \$12,683 thousand.
- (vii) In November 2017, the Company entered into a joint venture agreement with Eminent III VC Corp. and remitted the investment capital of \$150,000.
- (viii) Please refer to Note 6(r) for the Company's risk related issue on financial instruments.
- (ix) As of December 31, 2017 and 2016, the aforesaid financial assets were not pledged as collateral.
- (c) Notes receivable, accounts receivable, and other receivables

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
<u>Notes receivable</u>			
Notes receivable - sales of goods	\$ 8,049	338,566	142,288
Real estate notes receivable	22,221	107,935	455,579
	<b>\$ 30,270</b>	<b>446,501</b>	<b>597,867</b>
<u>Notes receivable</u>			
Notes receivable	\$ 8,939	365,123	432,542
Long-term notes receivable	21,331	81,378	165,325
	<b>\$ 30,270</b>	<b>446,501</b>	<b>597,867</b>
<u>Accounts receivable</u>			
Accounts receivable - sales of goods	\$ 1,452,666	1,204,977	1,308,010
Real estate receivable	362,691	468,166	815,858
Less: Unrealized interest income	(70,161)	(74,470)	(90,619)
Less: Allowance for impairment	-	-	-
	<b>\$ 1,745,196</b>	<b>1,598,673</b>	<b>2,033,249</b>

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

The average credit period of sales of goods was 30 to 120 days. The recognition of allowance for impairment loss was based on aging of receivables, historical experience and an analysis of customers' financial positions.

Except for those impaired, for the trade receivables balances that were past due at the end of the reporting period, the Corporation did not recognize an allowance for impairment loss, because there was no significant change in credit quality and the amounts were still considered recoverable. The Corporation did not hold any collateral or other credit enhancements for these balances.

The aging analysis of accounts receivables which were overdue but not impaired was as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Up to 30 days	\$ 6,983	29,889	27,673
31-60 days	2,828	57,132	15,631
Over 60 days	59,661	21,506	32,466
	<b><u>\$ 69,472</u></b>	<b><u>108,527</u></b>	<b><u>75,770</u></b>

As of December 31, 2017, real estate receivables amounted to \$384,912 thousand, including the long-term receivable from sales on installment, amounting to \$363,581 thousand and long-term notes receivable from sales on installment, amount to \$21,331 thousand. Expected recovery of these long-term receivables is at these amounts: \$40,287 thousand in 2018 and \$334,431 thousand in 2019.

The Corporation holds the sold real estate and checks as collateral for the real estate accounts receivables amounted to \$384,912 thousand.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(d) Inventories, buildings and land held for sale/receipts in advance

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Raw materials	\$ 1,085,692	1,006,113	1,185,578
Finished goods	502,374	369,617	640,527
Merchandise	583	222	1,967
	<b><u>\$ 1,588,649</u></b>	<b><u>1,375,952</u></b>	<b><u>1,828,072</u></b>
 <u>Buildings and land held for sale</u>			
Nangang R5 Residential Project	\$ 201,341	350,345	271,168
Others	30	30	30
	<b><u>\$ 201,371</u></b>	<b><u>350,375</u></b>	<b><u>271,198</u></b>
 <u>Receipts in advance</u>			
Nangang R5 Residential Project	<b><u>\$ 117,171</u></b>	<b><u>50,759</u></b>	<b><u>135,070</u></b>

The cost of inventories recognized as cost of goods sold and expense for the years ended December 31, 2017 and 2016, amounted to \$7,941,388 and \$9,124,686, respectively. For the years ended December 31, 2017 and 2016, the inventory were not gain or loss from valuation of inventories was recognized.

As of December 31, 2017 and 2016, the aforesaid inventories were not pledged as collateral.

(e) Investments accounted for using equity method

The Company's financial information for equity accounted investees at the reporting date was as follows:

	<b>December 31, 2017</b>	<b>(After adjusted) December 31, 2016</b>	<b>(After adjusted) January 1, 2016</b>
Subsidiaries	\$ 902,400	649,730	1,118,688
Associates	9,612,678	10,393,762	10,751,664
	<b><u>\$ 10,515,078</u></b>	<b><u>11,043,492</u></b>	<b><u>11,870,352</u></b>

(i) Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2017.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(ii) Associates that had materiality were as follows:

	<b>December 31, 2017</b>	<b>(After adjusted) December 31, 2016</b>	<b>(After adjusted) January 1, 2016</b>
Material associates			
Al-Jubail Fertilizer Company ("Al-Jubail")	\$ 9,538,520	10,393,762	10,748,372
Associates that are not individually material			
Bion Tech Inc.	-	-	3,292
MITAGRI Co., Ltd.	74,158	-	-
	<b><u>\$ 9,612,678</u></b>	<b><u>10,393,762</u></b>	<b><u>10,751,664</u></b>

Associates that had materiality were as follows:

<b>Associate</b>	<b>Nature of relationship</b>	<b>Country of registration</b>	<b>Equity ownership</b>		
			<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
AI-Jabail Fertilizer Company	Equity-metho d investee	Kingdom of Saudi Arabia	50.00%	50.00%	50.00%

The following is a summary of financial information on the Company's significant associates. In order to reflect the adjustments for fair value in acquisition of shares and differences in accounting policies, adjustment for the amounts presented on the financial statements of associates in accordance with IFRSs has been made to such financial information.

1) Summary financial information on AI-Jabail Fertilizer Company

	<b>December 31, 2017</b>	<b>(After adjusted) December 31, 2016</b>	<b>(After adjusted) January 1, 2016</b>
Current assets	\$ 7,502,494	6,871,619	8,205,423
Noncurrent assets	16,935,494	19,203,728	18,286,142
Current liabilities	(2,476,055)	(2,118,025)	(2,155,649)
Noncurrent liabilities	(2,525,920)	(2,590,938)	(2,586,447)
Net assets	<b><u>\$ 19,436,013</u></b>	<b><u>21,366,384</u></b>	<b><u>21,749,469</u></b>
Net assets attributable to non controlling interests	\$ 9,858,815	10,668,149	10,859,422
Net assets attributable to investee owners	9,577,196	10,698,235	10,890,047
	<b><u>\$ 19,436,011</u></b>	<b><u>21,366,384</u></b>	<b><u>21,749,469</u></b>

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

	<b>For the years ended December</b>	
	<b>31</b>	
	(After adjusted)	
	<b>2017</b>	<b>2016</b>
Revenue	<b>\$ 9,656,637</b>	<b>7,833,956</b>
Profit for the year	1,323,622	(466,085)
Other comprehensive income	12,564	-
Comprehensive income	<b>\$ 1,336,186</b>	<b>(466,085)</b>
Comprehensive income attributable to non controlling interests	<b>715,439</b>	<b>-</b>
Comprehensive income attributable to investee owners	<b>\$ 620,747</b>	<b>-</b>
Dividends declared by Associates	<b>\$ 798,667</b>	<b>-</b>

2) Information of associates that are not individually material

In February 2016, an associate (Bion Tech Inc.) of the Corporation issued ordinary shares for cash, but the Corporation didn't subscribe for any shares from the issuance. Therefore, the Corporation's proportion of ownership changed from 20.62% to 17.89%. Because the Corporation ceased to have significant influence, the investment was reclassified to financial assets carried at cost by fair value. Also, the Corporation recognized a disposal gain of \$4,887 thousand.

(iii) The recoverable amount of investment accounted for using equity method of Taiwan Yes Deep Ocean Water Co., Ltd., a subsidiary of the Company, was lower than its book value due to the decrease in the expected future cash flows resulting from the underperformance of the subsidiary. The impairment losses amounted \$31,714 and \$304,225 for the year ended December 31, 2017 and 2016, respectively. Such impairment losses were recognized as share of profit of associates and joint ventures accounted for using equity method in the statements of comprehensive income.

(f) Loss of control of a subsidiary

In July 2017, The Company subscribed to the additional shares of MITAGRI Co., Ltd. at a percentage different from its existing ownership percentage, resulting in a decrease in its shareholding to 33.33%. In August, the directors and supervisors of MITAGRI Co., Ltd. were re-elected during the provisional meeting of the shareholders. Therefore, the Company no longer has any significant influence over MITAGRI Co., Ltd; therefore, it excluded MITAGRI Co., Ltd. from its consolidated financial statements since September 1, 2017. The gain on disposal of the investment of \$24,562 was included in "other gains and losses".

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

The derecognition amount of Ability's assets and liabilities as of August 30, 2017, were as follows:

Cash and cash equivalents (with capital increased by cash \$168,260 thousands)	\$	208,360
Property, plant, and equipment		5,602
Other current assets - others		3,211
Other current assets - noncurrent		1,580
Accounts payable and other accounts payable		<u>(1,048)</u>
Book value of net assets of previous subsidiary	\$	<u><b>217,705</b></u>

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(g) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2017 and 2016 were as follows:

	Land	Building and construction	Machinery and equipment	Transportation Equipment	Other Equipmen	Construction in progress	Total
<b>Cost or deemed cost:</b>							
Balance on January 1, 2017	\$ 16,175,333	3,183,398	8,399,273	65,056	370,449	1,060,175	29,253,684
Additions	1,194	6,998	127,013	8,390	4,423	282,758	430,776
Disposals	(29,195)	(4,409)	(8,250)	(1,520)	(990)	-	(44,364)
Transfer to investment properties	(12,494,554)	(196,399)	(24,472)	-	(9,190)	-	(12,724,615)
Transfer from completion	-	83,415	135,252	2,537	14,021	(348,861)	(113,636)
Balance on December 31, 2017	<u>\$ 3,652,778</u>	<u>3,073,003</u>	<u>8,628,816</u>	<u>74,463</u>	<u>378,713</u>	<u>994,072</u>	<u>16,801,845</u>
Balance on January 1, 2016	\$ 16,186,026	3,322,366	8,489,800	63,718	362,576	1,045,891	29,470,377
Additions	-	232	95,511	5,094	965	526,373	628,175
Disposals	(636)	(200,280)	(345,509)	(5,387)	(4,325)	-	(556,137)
Transfer to investment properties	(10,057)	(89,318)	(17,994)	-	(6,149)	-	(123,518)
Transfer from completion	-	150,398	177,465	1,631	17,382	(512,089)	(165,213)
Balance on December 31, 2016	<u>\$ 16,175,333</u>	<u>3,183,398</u>	<u>8,399,273</u>	<u>65,056</u>	<u>370,449</u>	<u>1,060,175</u>	<u>29,253,684</u>
<b>Depreciation and impairment loss:</b>							
Balance on January 1, 2017	\$ -	542,599	1,870,427	42,576	96,164	82,820	2,634,586
Depreciation for the year	-	91,247	560,198	7,822	26,472	-	685,739
Disposals	-	(3,855)	(7,664)	(1,386)	(840)	-	(13,745)
Transfer to investment properties	-	(63,667)	(1,817)	(15,601)	(7,287)	-	(88,372)
Transfer from completion	-	-	(69,000)	12,550	(36)	-	(56,486)
Balance on December 31, 2017	<u>\$ -</u>	<u>566,324</u>	<u>2,352,144</u>	<u>45,961</u>	<u>114,473</u>	<u>82,820</u>	<u>3,161,722</u>
Balance on January 1, 2016	\$ -	651,525	1,699,573	41,843	76,517	82,820	2,552,278
Depreciation for the year	-	103,937	499,726	6,018	27,274	-	636,955
Disposals	-	(200,254)	(338,366)	(5,203)	(5,939)	-	(549,762)
Transfer to investment properties	-	(7,249)	(1,279)	-	(605)	-	(9,133)
Transfer from completion	-	(5,360)	10,773	(82)	(1,083)	-	4,248
Balance on December 31, 2016	<u>\$ -</u>	<u>542,599</u>	<u>1,870,427</u>	<u>42,576</u>	<u>96,164</u>	<u>82,820</u>	<u>2,634,586</u>
<b>Carrying amounts:</b>							
Balance on December 31, 2017	<u>\$ 3,652,778</u>	<u>2,506,679</u>	<u>6,276,672</u>	<u>28,502</u>	<u>264,240</u>	<u>911,252</u>	<u>13,640,123</u>
Balance on December 31, 2016	<u>\$ 16,175,333</u>	<u>2,640,799</u>	<u>6,528,846</u>	<u>22,480</u>	<u>274,285</u>	<u>977,355</u>	<u>26,619,098</u>
Balance on January 1, 2016	<u>\$ 16,186,026</u>	<u>2,670,841</u>	<u>6,790,227</u>	<u>21,875</u>	<u>286,059</u>	<u>963,071</u>	<u>26,918,099</u>

(i) In 2017, partial lands amounted to \$19,165,912 were transferred to investment property after an approval from the Board of Directors, because the lands were readjusted and would be for leasing.

(ii) As of December 31, 2017 and 2016, the property, plant and equipment were not pledged as collateral.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(h) Investment property

The Company for the Investment property were as follows:

	Completed Investment Property	Investment Property under Construction	Undeveloped Investment Property	Total
<b>Costs:</b>				
Balance on January 1, 2017	\$ 8,346,540	6,426,206	7,045,536	21,818,282
Additions	3,827	821,762	399,463	1,225,052
Transferred from property, plant and equipment	216,888	3,116	12,535,494	12,755,498
Disposals	-	-	(93,040)	(93,040)
Balance on December 31, 2017	<u>\$ 8,567,255</u>	<u>7,251,084</u>	<u>19,887,453</u>	<u>35,705,792</u>
Balance on January 1, 2016	\$ 8,346,540	5,683,320	6,372,955	20,402,815
Additions	-	619,368	672,581	1,291,949
Transferred from property, plant and equipment	-	123,518	-	123,518
Balance on December 31, 2016	<u>\$ 8,346,540</u>	<u>6,426,206</u>	<u>7,045,536</u>	<u>21,818,282</u>
<b>Amortization and Impairment Loss:</b>				
Balance on January 1, 2017	\$ 30,424	23,509	607,646	661,579
Depreciation	17,904	17,539	-	35,443
Transferred from property, plant and equipment	88,372	-	-	88,372
Balance on December 31, 2017	<u>\$ 136,700</u>	<u>41,048</u>	<u>607,646</u>	<u>785,394</u>
Balance on January 1, 2016	\$ 21,379	703	607,646	629,728
Depreciation	9,045	13,673	-	22,718
Transferred from property, plant and equipment	-	9,133	-	9,133
Balance on December 31, 2016	<u>\$ 30,424</u>	<u>23,509</u>	<u>607,646</u>	<u>661,579</u>
<b>Carrying amount:</b>				
Balance on December 31, 2017	<u>\$ 8,430,555</u>	<u>7,210,036</u>	<u>19,279,807</u>	<u>34,920,398</u>
Balance on December 31, 2016	<u>\$ 8,316,116</u>	<u>6,402,697</u>	<u>6,437,890</u>	<u>21,156,703</u>
Balance on January 1, 2016	<u>\$ 8,325,161</u>	<u>5,682,617</u>	<u>5,765,309</u>	<u>19,773,087</u>
<b>Fair value:</b>				
Balance on December 31, 2017				<u>\$ 100,758,372</u>
Balance on December 31, 2016				<u>\$ 89,504,110</u>
Balance on January 1, 2016				<u>\$ 94,872,928</u>

In 2017, partial lands were transferred to investment property (see note 6(g)) due to the readjustment of the lands.

Completed investment property are located in C3/C6/C7/C8/C9 in the Nangang Economic and Trade Park, and the Corporation leased land use right to others.

(i) The main provisions of the C6/C7/C8/C9 contract on the pledging of land use rights

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

were as follows:

- 1) Land use rights are for 50 years from the date of registration of these rights. When these rights expire or the contract is terminated, the lessee should cancel its registration for the land use rights and transfer to the Corporation all the land improvements (including the main building, attached building, parking space and all other attached facilities and improvements such as air-conditioning, and utility fixtures).
  - 2) The land use rights (accounted for as deferred income-noncurrent) amounted to \$3,200,889 thousand, which has been treated as royalty revenue (accounted for as operating revenue) amortizable over 50 years from June 13, 2006. As of December 31, 2017, 2016 and January 1, 2016, the unamortized balances of the land used rights under above mentioned contract were \$2,426,017 thousand, \$2,526,035 thousand, and \$2,590,053 thousand, respectively.
  - 3) In addition to the land use right, the annual rental payable by the lessee is 8% of the reference land price announced by the local government, with the calculation starting from the contract date. When the reference land price is adjusted, the annual rental will be revised at the percentage the same as that set on the date of the reference price adjustment. The annual rentals in 2017 and 2016 were \$331,327 thousand and \$345,132 thousand, respectively.
  - 4) The lessee should not transfer the land use rights or the ownership of leasehold improvements to a third party. Also prohibited are the placing of the land rights under a trust and the use of the rights as collateral.
  - 5) The lessee should not pledge liabilities on land use rights and improvements to a third party.
- (ii) On September 15, 2015, the Corporation signed with CTBC Life Insurance Co., Ltd. and Taiwan Life Insurance Co., Ltd. (together, the “lessees”) separate contracts for these two insurance companies to have the rights to use land located in C3 in the Nangang Economic and Trade Park. The main provisions of these contracts are as follows:
- 1) Land use rights (LURs) are valid for 45 years from the date of the registration of these rights. When these rights expire or the contracts are terminated by the Corporation or the lessees, the lessees should maintained all the land improvements (including the main building, attached building, parking space and all other attached facilities and improvements) at usable condition and cancel their registration for the LURs and transfer to the Corporation or a third party designated by the Corporation. But if the Corporation wants to demolish the land

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

improvements, it should accordingly inform the lessees in writing within at least five years before the contract expires.

- 2) The LURs (accounted for as deferred income - noncurrent) amounted to \$14,288,705 thousand, which has been treated as royalty revenue (under operating revenue) amortizable over 45 years from December 10, 2015. As of December 31, 2017, 2016 and January 1, 2016, the unamortized balance of the LURs were \$13,636,011 thousand, \$13,953,538 thousand, and \$14,271,064 thousand, respectively.
- 3) In addition to the LURs, the annual rental payable by the lessees is 0.8% of the reference land price announced by the local government, with the calculation starting from the registration date. When the reference land price is adjusted, the annual rental will be revised at the same percentage as the rate of the reference price adjustment. The lessees' annual rental in 2017 and 2016 were \$48,149 thousand.
- 4) The LURs should not be transferred to a third party. Also, the placing of the LURs under a trust and the use of the rights as collaterals are prohibited without the Corporation's prior written consent.
- 5) After nine years and six months from the registration date, the lessees have within six months to extend the validity period for the land use rights to another 40 years by giving a written notice to the Corporation. With this extension, the entire validity period of the LURs will be 85 years, and the lessees should pay an additional one-time royalty of \$15,000,000 thousand.
- 6) Under the contract, the lessees provided the Taiwan Government Bond A02105 and A03114 as collaterals; the fair values of these bonds were as follow:

	<b>The Taiwan Government Bond A02105</b>	<b>The Taiwan Government Bond A03114</b>
Balance on December 31, 2017	<b>\$ 1,030,629</b>	<b>1,614,901</b>
Balance on December 31, 2016	<b>\$ 1,078,335</b>	<b>1,666,091</b>
Balance on January 1, 2016	<b>\$ 968,192</b>	<b>1,437,659</b>

- (iii) Investment properties under construction are located in Hsinchu City and Hualien City and included land for the "C2 Tourist Hotel Project" and "Commercial Building Project" in the Nangang Economic and Trade Park. The C2 Tourist Hotel Project was won by the Grand Hi-Lai Hotel Co., Ltd. and the Caesar Park Hotel Co., Ltd., which both signed a front-end agreement (FEA) on December 31, 2013; both parties (the "Hotels") will sign a lease agreement under this FEA.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

The main terms of the FEA were as follows:

- 1) The Corporation is responsible for the construction of the lease premises (the “Premises”), and the Hotels should assist the Corporation in construction-related matters. The Corporation will shoulder the construction cost. Both parties are responsible for the completion of the premises in six years after signing the FEA.
- 2) The lease contract is for 20 years from the start of the lease contract, and the lessee has the first option to extend the lease for another 10 years. Upon expiry or termination of this lease agreement, the lessee should turn over the Premises as is to the Corporation.
- 3) The lessee should pay monthly rentals, calculated at the higher of the guaranteed rentals or revenue-based rentals payable to the Corporation from the Premises opening date. The guaranteed rental will be increased 1% each year, and the revenue-based rentals are 16% of the gross revenue of the hotel each month.
- 4) Under this FEA and lease agreement, the lessee should not assign and transfer any of its rights or obligation to a third party.

This project was approved by the Executive Committee of Urban Design and Land Use on February 15, 2016. The Company received the miscellaneous licenses and the notice of performance-based fire protection design with the approval from the Ministry of Interior in May and October 2017, respectively. The Company also obtained the construction permit in May 2017. This project is still in the progress.

The bid for the C2 Commercial Building Project was won by Dung Jeng Investment Co., Ltd. (“Dung Jeng”), for which the Corporation will construct a building and parking space for Dung Jeng’s lease. The lease contract was signed on January 30, 2015. The lease period is 20 years from the completion of the construction of the building and parking space.

The fair value of investment properties (as measured or disclosed in the financial statements) was based on a valuation by a qualified independent appraiser who has recent valuation experience in the location and category of the investment property being valued. The inputs of levels of fair value hierarchy in determining the fair value is classified to Level 3.

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

The fair values of investment properties were assessed as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
<u>C6/C7/C8/C9</u>			
Fair value	<b>\$ 23,025,461</b>	<b>24,139,596</b>	<b>24,696,664</b>
Measurement	The fair values were based on the valuations carried out at April 11, 2017 by independent qualified professional valuer.	The fair values were based on the valuations carried out at March 11, 2016 by independent qualified professional valuer.	The fair values were based on the valuations carried out at April 15, 2015 by independent qualified professional valuer.
<u>C2</u>			
Fair value	<b>\$ 19,038,100</b>	<b>19,743,214</b>	<b>20,659,864</b>
Measurement	The fair values were based on the valuations carried out at April 11, 2017 by independent qualified professional valuer.	The fair values were based on the valuations carried out at March 11, 2016 by independent qualified professional valuer.	The fair values were based on the valuations carried out at April 15, 2015 by independent qualified professional valuer.
<u>C3</u>			
Fair value	<b>\$ 32,919,880</b>	<b>34,427,661</b>	<b>38,322,761</b>
Measurement	The fair values were based on the valuations carried out at April 11, 2017 by independent qualified professional valuer.	The fair values were based on the valuations carried out at March 11, 2016 by independent qualified professional valuer.	The fair values were based on the valuations carried out at March 30, 2015 by independent qualified professional valuer.

The evaluation of fair value is based on market value, which is mainly determined by using the comparative method and land development analysis method. The value of the real property are determined at 50% and 50%, respectively. The major key assumptions used in development profit margins for 2017 and 2016 were as follows:

<u>Area</u>	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
C6/C7/C8/C9	18%	18%
C2	15%	15%
C3	18%	18%

The other investment properties held by the Corporation are mainly located in different industrial zones. They have no quoted prices in an active market and there was no alternative basis for estimating their fair values. Thus, the fair values of the investment

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

properties were not reliably determinable.

As of December 31, 2017, 2016 and January 1, 2016 investment properties were not pledged as collateral.

(i) Long-term prepayment for lease

The Company book values of long-term prepayment for lease were assessed as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Land in a special petrochemical industry zone in Taichung	<u>\$ 1,180,739</u>	<u>1,215,950</u>	<u>1,286,561</u>

On October 31, 2006, the Corporation leased from the Taichung Harbor Bureau, Ministry of Transportation and Communications (“THB”) a 247.298-square meter lot in a special petrochemical industry zone in Taichung to develop wharf areas, called wests 8 and 9, and construct warehouse facilities and public roads. In April 2007, the Corporation informed THB that an inspection showed the area of the land as stated in the lease contract was the same as that to be actually used by the Corporation; thus, the Corporation signed the contract. The main provisions of the lease agreement were as follows:

- (i) The lease term for the land in a special industrial zone is 20 years, and the agreement is renewable until the total lease reaches 50 years. The ownership of the real estate and its improvements constructed with the Corporation’s capital belongs to the Corporation. In principle, the Corporation will return the land to the government on the agreement expiry or upon early termination of the lease agreement.
- (ii) As mentioned above, the Corporation has leased land, developed wests 8 and 9 of the wharf area and constructed warehouse facilities and public roads on behalf of THB. The Corporation used its capital expenses for the construction as rentals in advance. However, once the lease term ends or the agreement is early terminated, all the titles to the facilities and improvements on the leased land should be transferred to THB.
- (iii) In the case where the difference between the final and the estimated amount of total investment in construction facilities and public road construction project exceeds \$10,000, the rent-free period shall be recalculated based on the final amount.

The Corporation uses its expenditures of \$1,500,481 thousand for the construction of wests 8 and 9 of Taichung Harbor as rentals until March 20, 2034. The long-term prepayments for lease should be amortized over its rent-free periods.

As of December 31, 2017, 2016 and January 1, 2016 long-term prepayment for lease were not pledged as collateral.

(j) Operating leases

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

The Company leases out its investment properties (see Note 6(g)). The future minimum leases payments under non cancellable leases (excluding land used rights) are as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Less than one year	\$ 598,257	569,219	370,980
Between one and five years	2,345,001	2,113,551	1,367,572
More than five years	14,003,460	14,185,900	8,370,284
	<b><u>\$ 16,946,718</u></b>	<b><u>16,868,670</u></b>	<b><u>10,108,836</u></b>

Operating leases relate to the investment property owned by the Corporation with lease terms between 1 to 50 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

For the year ended December 31, 2017 and 2016, the property rental income were \$404,353 thousands and \$335,204 thousands, respectively. There were no significant property equipment and maintenance expenses.

(k) Employee benefits

(i) Defined benefit plans

The Company's defined benefit obligations and fair value of plan assets were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Present value of defined benefit obligations	\$ 542,820	542,182	557,548
Fair value of plan assets	(430,757)	(447,829)	(89,508)
	112,063	94,353	468,040
Effect of the asset ceiling	-	-	-
Re measurement of net defined benefit liability	<b><u>\$ 112,063</u></b>	<b><u>94,353</u></b>	<b><u>468,040</u></b>

The Company makes defined benefit plans contributions to the pension fund account with Bank of Taiwan that provide pension benefits 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 six months prior to retirement.

1) Composition of plan assets

The Company sets aside pension funds in accordance with the Regulations for

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two year time deposits with the interest rates offered by local banks.

As of December 31, 2017, the Company's contributions to the pension funds which amounted to \$430,757 were deposited with Bank of Taiwan. 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) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December</b>	
	<b>31</b>	
	<b>2017</b>	<b>2016</b>
Defined benefit obligation, January 1	\$ 542,182	557,548
Current service costs and interest	23,319	25,023
Re-measurement of the net defined benefit liability		
— Actuarial (losses) gains arose from changes in demographic assumptions	1	2
— Actuarial gains arose from changes in financial assumption	19,243	7,182
— Experience adjustment		10,574
Past service cost and settlement loss or profit	(1,376)	10,809
Benefits paid	(60,269)	(44,834)
Liabilities extinguished on settlement	-	(24,122)
Defined benefit obligation, December 31	<b>\$ 542,820</b>	<b>542,182</b>

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

3) Movements in the fair value of plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Fair value of plan assets, January 1	\$ 447,829	89,508
Interests revenue	4,302	702
Re-measurement of the net defined benefit liability		
— Experience adjustment	(195)	1,913
Contributions made	33,307	405,581
Past service cost and settlement loss or profit	-	(13,570)
Benefits paid	(54,486)	(36,305)
Fair value of plan assets, December 31	<b>\$ 430,757</b>	<b>447,829</b>

4) Movements in the fair value of plan assets : None

5) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2017 and 2016, were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current service cost	\$ 18,173	19,748
Net interest of net liabilities for defined benefit obligations	843	4,573
Past service cost and settlement loss or profit	(1,376)	10,809
	<b>\$ 17,640</b>	<b>35,130</b>
Operating costs	\$ 10,954	9,510
Operating expenses	6,686	25,620
	<b>\$ 17,640</b>	<b>35,130</b>

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

- 6) Re measurement of net defined benefit liability (asset) recognized in other comprehensive income

The Company's re measurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2017 and 2016, was as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Cumulative amount, January 1	\$ 60,269	47,118
Recognized during the year	32,501	13,151
Cumulative amount, December 31	<b>\$ 92,770</b>	<b>60,269</b>

- 7) Actuarial assumptions

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Discount rate	0.75%	1.0%
Future salary increases rate	1.5%	1.2%

The expected allocation payment to be made by the Company to the defined benefit plans for the one year period after the reporting date is \$18,801 thousands.

- 8) Sensitivity analysis

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

	<b>Impact on the present value of defined benefit obligation</b>	
	<b>Increase by 0.25%</b>	<b>Decrease by 0.25%</b>
December 31, 2017		
Discount	\$ (8,862)	9,154
Future salary increase	9,062	(8,819)
December 31, 2016		
Discount	(8,850)	9,138
Future salary increase	9,097	(8,854)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

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 2016 and 2015.

(ii) Defined contribution plans

The Company has made monthly contributions equal to 6% of each employee's monthly salary to employee's pension accounts at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contributions to the Bureau of Labor Insurance amounted as follow:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Operating costs	\$ 10,011	8,321
Operating expenses	8,897	8,661
	<b>\$ 18,908</b>	<b>16,982</b>

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2017 and 2016 amounted to \$16,010 and \$27,299, respectively.

(iii) Short term employee benefits

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
short term employee benefit liabilities	<b>\$ 5,881</b>	<b>-</b>	<b>482</b>

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(l) Income tax

(i) The components of income tax expense for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current income tax expense		
Current period incurred	\$ 156,626	-
Land value increment tax	36,470	288
10% surtax on undistributed earnings	-	10,521
Prior years income tax adjustment	(10,483)	(10,565)
	182,613	244
Deferred tax expense	17,211	74,434
Income tax expense	<b>\$ 199,824</b>	<b>74,678</b>

The following are details of the income tax (expense) benefit recognized under other comprehensive income:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Items that will not be reclassified to profit or loss:		
Remeasurements effects of defined benefit plans	<b>\$ 6,658</b>	<b>2,694</b>
Items that may be reclassified subsequently to profit and loss:		
Translation of foreign operations	<b>\$ 138,575</b>	<b>28,732</b>

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

Income tax calculated on pre tax financial income was reconciled with income tax expense for the years ended December 31, 2017 and 2016 as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Profit before income tax	\$ 1,818,950	1,882
Income tax on pre tax financial income calculated at the domestic rate	309,222	321
Nondeductible income tax	41,083	-
Tax-exempt income	(52,781)	(10,247)
Change of unrecognized temporary differences	(10,581)	12,092
10% surtax on undistributed earnings	-	10,521
Prior years income tax adjustment	(10,483)	(10,565)
Adjustment items in determining taxable profit	(76,636)	72,269
Others	-	288
Income tax	<b>\$ 199,824</b>	<b>74,679</b>

(ii) Deferred tax assets and liabilities

1) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2017 and 2016 were as follows:

Deferred on tax liabilities

	<b>Land value increment tax</b>	<b>Investment income recognized under the equity method</b>	<b>Exchange difference on the translation of foreign operations</b>	<b>Others</b>	<b>Total</b>
Balance on January 1, 2017	\$ 6,420,233	532,020	176,761	83	7,129,097
Recognized in profit or loss	(7,405)	(3,431)	-	10,888	52
Recognized in other comprehensive income	-	-	(115,063)	-	(115,063)
Balance on December 31, 2017	<b>\$ 6,412,828</b>	<b>528,589</b>	<b>61,698</b>	<b>10,971</b>	<b>7,014,086</b>
Balance on January 1, 2016	\$ 6,420,390	565,153	205,493	47	7,191,083
Recognized in profit or loss	(157)	(33,133)	-	36	(33,254)
Recognized in other comprehensive income	-	-	(28,732)	-	(28,732)
Balance on December 31, 2016	<b>\$ 6,420,233</b>	<b>532,020</b>	<b>176,761</b>	<b>83</b>	<b>7,129,097</b>

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

	Unamortized manufacturing costs	Tax losses	Defined benefit obligation	Impairment loss on assets	Exchange difference on the translation of foreign operations	Others	Total
Balance on January 1, 2017	\$ 37,834	14,347	16,040	70,731	-	16,743	155,695
Recognized in profit or loss	(4,303)	(14,347)	(3,646)	-	-	5,137	(17,159)
Recognized in other comprehensive income	-	-	6,657	-	23,512	-	30,169
Balance on December 31, 2017	<u>\$ 33,531</u>	<u>-</u>	<u>19,051</u>	<u>70,731</u>	<u>23,512</u>	<u>21,880</u>	<u>168,705</u>
Balance on January 1, 2016	\$ 60,880	20,932	79,567	81,638	-	17,673	260,690
Recognized in profit or loss	(23,046)	(6,585)	(66,220)	(10,907)	-	(930)	(107,688)
Recognized in other comprehensive income	-	-	2,693	-	-	-	2,693
Balance on December 31, 2016	<u>\$ 37,834</u>	<u>14,347</u>	<u>16,040</u>	<u>70,731</u>	<u>-</u>	<u>16,743</u>	<u>155,695</u>

(iii) The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

(iv) Stockholders' imputation tax credit account and tax rate:

	December 31, 2017	(after adjusted) December 31, 2016	(after adjusted) January 1, 2016
Company's earnings generated for the period up to December 31, 1997	(Note) \$ -	-	-
Unappropriated earnings of 1998 and after	(Note) 286,015	2,672,036	
		<u>\$ 286,015</u>	<u>2,672,036</u>
Stockholders' imputation tax credit account	(Note) \$ 192,221	945,082	
		<u>\$ 192,221</u>	<u>945,082</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	(Note) <u>2017(Expect)</u>	<u>2016(Actual)</u>	<u>7.20%</u>

The above stated information was prepared in accordance with information letter No. 10204562810 issued by the Ministry of Finance of the R.O.C. on October 17, 2013.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(m) Share capital and other interests

(i) Share capital

As of December 31, 2017 and 2016, the authorized capital of the Company amounting to \$9,800,000, with par value of \$10 per share. The paid in capital was \$9,800,000

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

thousands, and the capital that rose from the shares had all been retrieved.

(ii) Capital surplus

The components of capital surplus were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital</u>			
Donations	\$ 44,803	44,803	44,803
Treasury share transactions	2,187,988	2,187,988	2,187,988
<u>May not be used</u>			
Arising from share of changes in capital surplus of associates	-	-	4,887
	<b><u>\$ 2,232,791</u></b>	<b><u>2,232,791</u></b>	<b><u>2,237,678</u></b>

In accordance with Amended Companies Act 2012, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting against losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with Securities Offering and Issuance Guidelines, the amount of capital reserves that can be capitalized shall not exceed 10 percent of the actual share capital amount.

(iii) Retained earnings

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

To determine dividend amounts, the Corporation should take into account the diversity of its business, cycles of the industry, and capital demand in relation to specific products and services. To balance business development and shareholders' welfare, the cash dividend should not be less than 10% of total annual dividends, unless there is any capital demand due to essential investment plan, change in financial position, business operation, extension of capacity or any other capital expenditure and should be approved in the shareholders' meetings.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

1) Legal reserve

In accordance with the Company Act amended in 2012, 10 percent of net income is set aside as legal reserve until it is equal to share capital. If the Company earned a profit for the year, the meeting of shareholders decides on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, and the distribution is limited to the portion of legal reserve which exceeds 25 percent of the actual share capital.

2) Special reserve

The Company implemented the optional exemptions under IFRS 1 “First-time Adoption of International Financial Reporting Standards” when adopting the International Financial Reporting Standards at first time. The increase in retained earnings resulting from the unrealized revaluation increments, cumulative translation adjustment and the revaluation increments in the transfer from fix assets to investment property was \$32,114,341. In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, the same amount of the increasing earnings shall be reclassified to special earnings reserve. If a certain proportion of the asset has been disposed or reclassified, the same proportion of special earnings reserve equivalent to that of the asset, which has been disposed or reclassified, has to be transferred back to its earnings. Such special earnings reserve has to have the same amount with the one that was initially being reclassified to its special earnings reserve. The balance of such special earnings reserve amounted to \$31,449,960 and \$33,590,309 as of December 31, 2017 and 2016, respectively.

In accordance with the aforesaid Ruling, a special reserve is set aside from the current year’s net income after tax and prior year’s undistributed earnings at an amount equal to the debit balance of contra accounts in shareholders’ equity. When the debit balance of any of these contra accounts in shareholders’ equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

#### 3) Earnings distribution

Earnings distribution for 2016 and 2015 was decided via the general meeting of shareholders held on 14 June 2017 and 29 June 2016, respectively. The relevant dividends distributions to shareholders were as follows:

	2016		2015	
	Amount per share (dollars)	Amount	Amount per share (dollars)	Amount
Dividends distributed to ordinary shareholders:				
Cash	\$ 2.10	<u>2,058,000</u>	2.10	<u>2,058,000</u>

The net loss for the year, which amounted to \$129,503 thousand, will be made up by unappropriated earnings. By combining the adjusted unappropriated earnings amounting to \$832,835 thousand with the reversed appropriated special reserve amounting to \$2,030,304 thousand, the Corporation will distribute cash dividends amounting to \$2,058,000 thousand (\$2.1 per share).

#### (iv) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available for sale investments	Total
Balance on January 1, 2017	\$ 531,966	62,919	594,885
Retrospective application and the impact of retrospective adjustment	169	-	169
Balance on January 1, 2017 after adjusted	532,135	62,919	595,054
Share of exchange differences of subsidiaries and associates accounted for using equity method	(679,462)	-	(679,462)
Unrealized gains (losses) on available for sale financial assets	-	49,729	49,729
Balance on December 31, 2017	<u>\$ (147,327)</u>	<u>112,648</u>	<u>(34,679)</u>
Balance on January 1, 2016	\$ 710,438	42,339	752,777
Retrospective application and the impact of retrospective adjustment	(25,024)	-	(25,024)
Balance on January 1, 2017 after adjusted	685,414	42,339	727,753
Share of exchange differences of subsidiaries and associates accounted for using equity method (after adjusted)	(153,279)	-	(153,279)
Unrealized gains (losses) on available for sale financial assets	-	20,580	20,580
Balance on December 31, 2016	<u>\$ 532,135</u>	<u>62,919</u>	<u>595,054</u>

#### (n) Earnings per share

The basic earnings per share and diluted earnings per share were calculated as follows:

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

	For the years ended December 31	
	2017	(after adjusted) 2016
<b>Basic earnings per share</b>		
Profit attributable to ordinary shareholders	\$ <u>1,619,126</u>	<u>(72,797)</u>
Weighted average number of ordinary shares	980,000	980,000
	<u>\$ 1.65</u>	<u>(0.07)</u>
<b>Diluted earnings per share</b>		
Profit attributable to ordinary shareholders (diluted)	\$ <u>1,619,126</u>	<u>(72,797)</u>
Weighted average number of ordinary shares	980,000	980,000
Effect of potentially dilutive ordinary shares		
Employees' compensation	1,186	-
Weighted average number of ordinary shares (diluted)	981,186	980,000
	<u>\$ 1.65</u>	<u>(0.07)</u>

(o) Operating revenues and costs

The details of operating revenues and costs of the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Operating revenues		
Sales revenue	\$ 9,643,995	10,089,769
Rental revenue	1,501,693	1,463,143
Property revenue	277,082	303,718
Other revenue	55,334	50,031
Less: Sales returns and allowances	<u>(131,685)</u>	<u>(13,395)</u>
Net operating revenues	<u>11,346,419</u>	<u>11,893,266</u>
Operating costs		
Cost of goods sold	7,908,669	9,124,686
Rental cost	736,034	675,081
Property selling cost	<u>157,583</u>	<u>117,767</u>
Total operating costs	<u>8,802,286</u>	<u>9,917,534</u>
Gross profit	<u>\$ 2,544,133</u>	<u>1,975,732</u>

(p) Remuneration to employees, directors and supervisors

Based on the Company's articles of incorporation, remuneration to employees, directors and

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

supervisors is appropriated at the rate of 2.4% and no more than 1.6%, respectively, of the profit before tax. The Company should first offset the prior years' accumulated deficit before any appropriation of any profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock.

For the year ended December 31, 2017, the remuneration to employees amounted to \$45,474, and the directors' and supervisors' remuneration amounted to \$30,316. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2016 and 2015. There was no difference between the amounts approved in Board of Directors meeting.

Information on remuneration to employees, directors and supervisors resolved by the Corporation's board of directors in 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

(q) Non operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Interest income - bank deposits	\$ 80,170	59,919
Subsidies of land improvement demolition	-	46,870
Dividends	43,562	41,782
Overdue payable income	55,852	-
Others	14,283	13,854
	<u>\$ 193,867</u>	<u>162,425</u>

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Net foreign exchange gain	\$ (34,333)	4,593
Gain on disposal of investments	46,350	23,381
Loss on impairment of financial assets	-	(15,000)
Impairment loss of other receivables	-	(4,294)
Loss on disposal of investment property	(24,569)	-
Gain on disposal of property, plant and equipment	101,610	3,584
Donation expense and the relevant withholding tax	(241,381)	(149,475)
Others	(20,840)	(49,318)
	<b>\$ (173,163)</b>	<b>(186,529)</b>

(iii) Finance costs

The details of finance costs for the years ended December 31, 2017 and 2016 were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Bank interest expense	<b>\$ (4)</b>	<b>(6,711)</b>
	<b>\$ (4)</b>	<b>(6,711)</b>

(r) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the Company's maximum credit exposure.

2) Credit risk concentrations

The clients of the Company are widely spread and not related to each other; thus, there was no concentration of credit risk.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(ii) Liquidity risk

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

	<b>Carrying amount</b>	<b>Within 1 year</b>	<b>1-3 months</b>	<b>3 months -1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>
<b>December 31, 2017</b>						
Non-derivative financial liabilities						
Noninterestbearing liabilities	<u>\$</u> <b>1,744,948</b>	<b>354,067</b>	<b>995,650</b>	<b>395,231</b>	<b>-</b>	<b>-</b>
<b>December 31, 2016</b>						
Non-derivative financial liabilities						
Noninterestbearing liabilities	<u>\$</u> <b>1,361,074</b>	<b>47,973</b>	<b>974,207</b>	<b>338,894</b>	<b>-</b>	<b>-</b>
<b>Balance on January 1, 2016</b>						
Non-derivative financial liabilities						
Noninterestbearing liabilities	<u>\$</u> <b>1,922,681</b>	<b>75,969</b>	<b>1,134,383</b>	<b>712,329</b>	<b>-</b>	<b>-</b>

The Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

(iii) Transfer between levels

1) Currency risk

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

	December 31, 2017			(after adjusted) December 31, 2016			(after adjusted) January 1, 2016		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>									
<u>Monetary items</u>									
USD: NTD	\$ 97,915	29.76	2,913,951	10,936	32.25	352,686	13,068	32.825	428,957
<u>Financial liabilities</u>									
Investments accounted for using equity									
SAR: NTD	1,202,043	7.94	9,538,520	1,209,665	8.60	10,402,150	1,296,728	8.75	11,349,635
USD: NTD	1,230	29.76	36,611	872	32.25	28,136	1,140	32.825	37,435
<u>Financial liabilities</u>									
<u>Monetary items</u>									
USD: NTD	19,537	29.76	581,429	6,634	32.25	213,947	19,852	32.825	651,642

2) Sensitivity analysis

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2017 and 2016 would have increased or decreased the before tax net income by \$193,599 and \$11,515, respectively. The analysis is performed on the same basis for both periods.

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2017 and 2016, the foreign exchange losses, including both realized and unrealized, amounted to \$(34,333) and \$4,593, respectively.

(iv) Sensitivity analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

The sensitivity analyses below were based on the exposure to equity price risks at the end of the reporting period. For floating-rate liabilities, the analysis is based on the assumption that the amount of liabilities outstanding on the reporting date is circulated throughout the year.

If interest rates had been 1 basis point higher/lower and all other variables were held constant, the Corporation's pre-tax (loss) profit for the years ended December 31, 2017 and 2016 would decrease/increase by \$0 due to the Company's cash and cash equivalents balances which exceeds its loan amount.

(v) Other price risk

If the stock price changes at the reporting date, the changes in other comprehensive income of the Company are estimated as follows: (The analysis was made on the same basis for both periods, assuming that all other variables remain constant and any impact to forecasted sales and purchases was ignored):

Equity price at the end of the reporting period	For the years ended December 31			
	2017		2016	
	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)
Increase 5%	\$ 110,577	-	162,326	-
Decrease 5%	\$ (110,577)	-	(162,326)	-

(vi) Fair value of financial instruments

1) Categories and fair value of financial instruments

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

The fair value of financial assets and liabilities were 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) :

		December 31, 2017			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets carried at cost – current and noncurrent	\$ 546,899	-	-	-	-
Availableforsale financial assets – current and noncurrent	\$ 2,211,546	2,211,546	-	-	2,211,546
Loans and receivables (note 1)	\$ 9,565,328	-	-	-	-
Financial liabilities measured at amortized cost (note 2)	\$ 1,426,678	-	-	-	-
		December 31, 2016			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets carried at cost – current and noncurrent	\$ 449,582	-	-	-	-
Availableforsale financial assets – current and noncurrent	\$ 3,246,512	3,246,512	-	-	3,246,512
Loans and receivables (note 1)	\$ 10,222,443	-	-	-	-
Financial liabilities measured at amortized cost (note 2)	\$ 1,361,074	-	-	-	-
		January 1, 2016			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets carried at cost – current and noncurrent	\$ 495,041	-	-	-	-
Availableforsale financial assets – current and noncurrent	\$ 8,729,292	8,729,292	-	-	8,729,292
Loans and receivables (note 1)	\$ 7,595,462	-	-	-	-
Financial liabilities measured at amortized cost (note 2)	\$ 1,922,681	-	-	-	-

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable, other receivables, other financial assets, and long-term receivable.

Note 2: The balances included financial liabilities measured at amortized cost, which comprised notes payable, accounts payable, other payables and short term loans.

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

Financial instruments trade in active markets is based on quoted market prices.

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

The market prices from the main exchanges and government bond exchanges are the basis of the fair value of OTC equity instruments and debt instruments which have a quoted market price in an active market.

3) Transfer between levels

For the years ended in December 31, 2017 and 2016, there was no transfer between levels.

(s) Financial risk management

(i) Overview

The nature and the extent of the Company's risks arising from financial instruments, which include credit risk, liquidity risk and market risk, are discussed below. Also, the Company's objectives, policies and procedures of measuring and managing risks are discussed below.

For more quantitative information about the financial instruments, please refer to the other related notes of the notes to the financial statements.

(ii) Risk management framework

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(iii) Credit risk

Credit risk means the potential loss of the Company if the counterparty involved in that transaction defaults. The primary potential credit risk is from financial instruments like accounts receivable and equity securities.

1) Accounts receivables and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company'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 income of the Company in 2017 and 2016 has not been significantly concentrated in regional credit risk.

The company has established a credit policy. According to the policy, the

## **TAIWAN FERTILIZER CO., LTD**

### **Notes to the Financial Statements**

company must individually analyze its credit rating for each new customer before giving the standard payment and delivery conditions and terms.

The Company 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) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company's finance department. As the Company 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 Company does not have compliance issues and no significant credit risk.

#### 3) Guarantees

The Company's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies.

#### (iv) Liquidity risk

Liquidity risk is a risk that the Company is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as much 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 Company's reputation.

#### (v) Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company'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 the return.

#### 1) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency. The currencies used in these transactions are

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

denominated in USD, EUR, JPY, and RMB.

The exchange gains or losses of trade receivables in foreign currencies resulting from the changes in exchange rates are offset against the exchange losses or gains of short-term borrowings in foreign currencies; thus, the exposure to foreign currency risk is insignificant.

The interest is denominated in the same currency as borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

The investments of other subsidiaries of the Company are not for hedging.

2) Interest rate risk

The Company's interest rate risk arises from short-term and long-term loans bearing floating interest rates. Future cash flow will be affected by a change in market interest rate.

3) Other market risk

The Company does not enter into any commodity contracts other than to meet its expected usage and sales requirements; such contracts are not settled on a net basis.

(t) Capital management

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, and issue new shares or sell assets to reduce debts.

The Company manages capital by the debt to equity ratio. Such ratio is calculated as net liabilities divided by total capital. Net liabilities represent the total amount of liabilities on the balance sheet minus cash and cash equivalents. The total amount of capital represents all the equity components (share capital, capital surplus, retained earnings, and other equity) plus net liabilities.

In 2017, the company's capital management strategy was consistent with that of 2016, that is, it maintained a debt-to-capital ratio of between 32% and 34% to ensure that it could

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

finance at a reasonable cost. The Company's debt to equity ratios at the balance sheet date were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Total liabilities	\$ 25,996,430	25,931,288	27,386,967
Less: cash and cash equivalents	(1,755,104)	(947,774)	(2,349,622)
Net debt	24,241,326	24,983,514	25,037,345
Total capital	49,092,452	50,187,278	52,468,812
Adjusted capital	<b><u>\$ 73,333,778</u></b>	<b><u>75,170,792</u></b>	<b><u>77,506,157</u></b>
Debt to equity ratio	<b><u>33.06%</u></b>	<b><u>33.24%</u></b>	<b><u>32.30%</u></b>

**(7) Related-party transactions:**

(a) Names and relationship with related parties

The following are entities that have had transactions with related parties and the Company's subsidiaries during the periods covered in the non-consolidated financial statements.

<b>Name of related party</b>	<b>Relationship with the Company</b>
AI-Jabail Fertilizer Company	Equity-method investee
TR Electronic Chemical Co.,Ltd.	The Company's jointly controlled entity
TR Electronic Chemical (Kunshan) Ltd.	The Company's jointly controlled entity's subsidiary
MITAGRI Co., Ltd.	Equity-method investee
TAIFER (CAMBODIA) Co., Ltd.	The Company's subsidiary
Taifer Chemicals International Inc.	"
Taiwan Yes Deep Ocean Water Co., Ltd.	"
Hasbo Biotech Co., Ltd. (note)	"
PEIFENG Technology & Fertilizer Co., Ltd.	"
TAIFER (CAYMAN) INTERNATIONAL GROUP Co., Ltd.	"
TAIFER INTERNATIONAL (SAMOA) Co., Ltd.	"
TAIFER INTERNATIONAL (SAMOA) GROUP Co., Ltd.	"
TAIFER CHEMICAL INTERNATIONAL Co., Ltd.	"

Note: The liquidation procedure was conducted in October 2017, and the relevant statutory procedures have not yet been completed up on the date of our auditors' report.

(b) Significant Transactions with related parties

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

(i) Sale of Goods to Related Parties

The amounts of significant sales transactions and outstanding balances between the Company and related parties were as follows:

	For the years ended December 31	
	2017	2016
Subsidiaries	\$ 4,379	24,171

Prices charged for sales transactions with associates were not significantly different from those of non related parties.

(ii) Purchase of Goods from Related Parties

The amounts of significant purchase transactions and outstanding balances between the Company and related parties were as follows:

	Purchases		Payables to Related Parties		
	For the years ended December 31		December 31, 2017	December 31, 2016	January 1, 2016
	2017	2016			
AI-Jabail Fertilizer Company	\$ 942,151	1,026,900	581,275	318,490	655,755

	Prepayments		
	December 31, 2017	December 31, 2016	January 1, 2016
AI-Jabail Fertilizer Company	\$ 6,761	-	-

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other normal vendors.

(iii) Other related party transactions accounted for as assets and liabilities in the balance sheet

The amounts of assets and liabilities balances between the Company and related parties were as follows:

	Accounts receivables		
	December 31, 2017	December 31, 2016	January 1, 2016
Subsidiaries	\$ 888	2,939	-

	Other receivables		
	December 31, 2017	December 31, 2016	January 1, 2016
Subsidiaries	\$ 163	126	-

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

	<b>Account payables</b>		
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
	Subsidiaries	<b>\$ 490</b>	<b>2,137</b>

	<b>Guarantee deposit</b>		
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
	Subsidiaries	<b>\$ 1,776</b>	<b>1,900</b>

(iv) Purchase and sales of real estate property and other assets

In 2017, the company's capital management strategy was consistent with that of 2016, that is, it maintained a debt-to-capital ratio of between 32% and 34% to ensure that it could finance at a reasonable cost. The amounts of purchase and sales of real estate property and other assets balances between the Company and related parties were as follows:

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	Subsidiaries	<b>\$ 1,194</b>

(v) Rental revenue

The Company leased its office building to its parent company in 2017 and 2016. The lease contract was based on the regional market rent rate. For the years ended December 31, 2017 and 2016, the Company incurred the amounts of \$14,898 and 17,185, respectively, resulting from its transaction with other related parties.

(vi) Others

- 1) TR Electronic Chemical Co., Ltd. (TR), a jointly controlled entity of the Corporation, had obtained a financing of US\$10,000 thousand from a bank, and the Corporation and Jing Chin International Limited Corporation, a shareholder of TR, guaranteed the repayment of this financing. When TR failed to make a repayment, the bank then requested the guarantors to repay the loan partially. Because the Corporation could only provide TR-in compliance with the "Regulations Governing the Granting of Loans and Endorsements and Guarantees by Public Companies" - with a limited amount of endorsement, the Corporation's board approved the repayment of TR's loan, as following.

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

<u>Due Date</u>	<u>Date of Repayment</u>	<u>Amount in USD</u>	<u>Amount in NTD</u>
March 27, 2014	June 27, 2014	\$ 4,570	144,641
April 26, 2015	April 24, 2015	3,300	102,610
March 27, 2016	March 31, 2016	2,147	70,026

Considering the weakening operating and repayment capability of TR, the Corporation recognized an impairment loss in 2015.

2) Other prepayment for related parties

	<u>Accounts receivable</u>		
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
Jointly controlled entity	<u>\$ 455</u>	<u>455</u>	<u>-</u>

3) Hasbo Biotech Co., Ltd. conducted its liquidation procedures in October 2017. The relevant statutory procedures are expected to be completed in 2018, and it is expected to recover the amount of \$5,038,376, which has yet to be received.

(c) Compensation of key management personnel

The compensation to directors and other key management personnel were as follows:

	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 53,658	40,286
Post-employment benefits	6,631	8,906
	<u>\$ 60,289</u>	<u>49,192</u>

(8) Pledged assets:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
Other financial assetnoncurrent	Pledge deposits	<u>\$ 13,500</u>	<u>13,800</u>	<u>13,800</u>

(9) Commitments and contingencies:

(a) Significant commitments and contingencies

(i) Significant commitments and contingencies were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
Purchase real estate property	<u>\$ 177,760</u>	<u>291,203</u>	<u>476,429</u>
Purchase investment property	<u>\$ 793,858</u>	<u>1,544,474</u>	<u>1,713,486</u>

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

- (ii) Unused standby letters of credit

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
USD thousands	<u>\$ 5,744</u>	<u>10,059</u>	<u>9,493</u>
EUR thousands	<u>\$ 65</u>	<u>454</u>	<u>-</u>

- (iii) The Corporation had guarantee notes payable for its debt as follow:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>January 1, 2016</u>
Guarantee notes payable	<u>\$ 12,167,420</u>	<u>11,995,100</u>	<u>16,095,126</u>

- (b) Commitments

- (i) Huaku Development Co., Ltd. (“Huaku”) filed an appeal with the Taipei District Civil Court (the “Court”) for the Corporation to pay a co-building trade business tax of \$38,370 thousand. The Court ruled that the Corporation should make this payment in June 2014. The Corporation brought this case to a High Court in August 2014; however, the High Court ruled denying in June 2015. Therefore, the Corporation lodged an appeal against the High Court judgment in July 2015, but the Supreme Court decided against the Corporation, so the conviction has been affirmed by the Supreme Court. The Corporation accrued a possible loss of \$38,370 thousand for this case in 2012 financial statements.

- (ii) On June 25, 2013, the shareholders resolved that, in order to enhance the long-term business relationship with Saudi Arabian Basic Industries Corporation as well as to maintain the relationship with the Kingdom of Saudi Arabia (“Saudi Arabia”), the Corporation shall donate its share of Al-Jubail’s profit, with US\$50,000 thousand as the donation limit, to the government or organizations in Saudi Arabia.

In October 2013, the Corporation and Al-Jubail signed a Memorandum of Understanding (MOU); the main contents of the MOU are summarized as follows:

- 1) The Corporation agreed to donate US\$42,000 thousand by way of six equal semiannual installments of US\$7,000 thousand to the government or a nonprofit organization in Saudi Arabia. The first donation should be made by October 31, 2013.
- 2) The donation will be funded from the dividends of Al-Jubail that have been declared and are to be distributed to the Corporation. Al-Jubail will keep the above funds in a separate account in its name in a local bank. As administrator of the donations, Al-Jubail should designate the recipient of the donation. The

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

Corporation's donation was as follows:

<u>Period</u>	<u>Date of Donations</u>	<u>Amount in USD</u>	<u>Amount in NTD</u>
1st	October 2013	\$ 7,000	209,440
2nd	June, 2014	7,000	208,635
3rd	December, 2014	7,000	212,940
4th	March, 2015	7,000	223,650
5th	December, 2017	7,000	209,650

(iii) On May 22, 2015, the Corporation's board of directors approved the issuance by Taifer (Cayman) International Group Co., Ltd. ("Corporation Cayman"), a 100% subsidiary, of a letter endorsing the request of TR Electronic Chemical (Kunshan) Ltd. (TR) for a bank financing of US\$3,000 thousand; the main contents of the letter are as follows:

- 1) Taifer Cayman will inform the bank once its equity interest in TR becomes less than 51%.
- 2) Taifer Cayman will maintain its management of and control over TR.
- 3) Taifer Cayman will provide TR with appropriate resources (including financial, employee and technology support) to help TR carry out its obligations.
- 4) If TR significantly breaches the contract, Taifer Cayman will take lawful measures to assist TR in fully repaying, or monitor the way TR repays, its loan, or in providing other collaterals to the bank.

(iv) On October 14, 2016, the Corporation received a letter from the National Taxation Bureau of Taipei, Ministry of Finance, which notified the Corporation that it had not declared withholding tax in relation to donations to the government and non-profit organizations of Saudi Arabia from 2014 to 2016. According to Paragraph 1 of Article 114 of the Income Tax Act, the amount of withholding tax payable was \$140,065 thousand, and the Corporation paid it on October 28, 2016. The Corporation also accrued fines for this case in 2016.

**(10) Losses Due to Major Disasters: None**

**(11) Subsequent Events:**

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return. This increase does not affect the amounts of the current and deferred income taxes recognized on December 31, 2017. However, it will increase the Group's current and deferred tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the

## TAIWAN FERTILIZER CO., LTD

### Notes to the Financial Statements

taxable temporary differences and unused tax losses recognized on December 31, 2017, the deferred tax assets would increase by \$22,274 and \$95,216.

#### (12) Other:

The nature of employee benefits, depreciation and amortization expenses categorized by function, were as follows:

By function By item	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 404,424	526,160	930,584	403,556	438,579	842,135
Health and labor insurance	32,928	22,678	55,606	30,336	19,004	49,340
Pension	21,818	14,746	36,564	17,831	36,085	53,916
Others	18,489	12,538	31,027	15,726	15,561	31,287
Depreciation	655,822	47,821	703,643	594,240	51,760	646,000
Amortization	73,055	11,459	84,514	72,456	11,457	83,913

(a) The depreciation of non-operating income and expenses of the Company in 2017 and 2016 were 17,539 thousand and 13,673 thousand, respectively.

(b) In 2017 and 2016, the Company has 690 and 688 employees, respectively.

#### (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: None

(ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/guarantees to third parties on behalf of parent company	Endorsements/guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	Taiwan Fertilizer Co., Ltd. (the "Company")	TAIFER (CAMBODIA) CO., LTD	Subsidiary	39,501	13,500	13,500	13,500	-	0.03%	24,546,226			

Note 1: 1. A subsidiary in which the Company directly or indirectly holds more than 50% of its common shares.

# TAIWAN FERTILIZER CO., LTD

## Notes to the Financial Statements

2. The financial guarantee provided by the Company based on its shareholding due to joint venture relationship.
3. The parent company which directly or indirectly holds more than 50% of the common shares of the Company.

Note 2: The total amount of the guarantee provided by the Corporation to any individual entity should not exceed 20% of the Corporation's net worth, or 50% of the individual net worth of Taifer.

Note 3: The total amount of guarantee should not exceed 50% of the Corporation's net worth.

- (iii) Securities held as of December 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Category and name of security	Marketable Securities Type/ Name and Issuer	Relationship with company	Account title	Shares/Units (thousands)	Ending balance		Fairvalue	Note
					Carrying value	Percentage of ownership (%)		
Taiwan Fertilizer Co., Ltd.	Mutual funds	—	Available-for-sale financial assets - current	16,079	200,439	- %	200,439	
	Mega Diamond Money Market Fund	—	Available-for-sale financial assets - current	63,961	941,983	- %	941,983	
	Jih Sun Money Market Fund	—	Available-for-sale financial assets - current	11,665	150,457	- %	150,457	
	Jih Sun Asian High Yield Bond Fund	—	Available-for-sale financial assets - current	11,267	148,386	- %	148,386	
	Fuh Hua Strategic High Income Fund of Funds	—	Available-for-sale financial assets - current	14,369	151,768	- %	151,768	
	Nomura Global Short Duration Bond Fund	—	Available-for-sale financial assets - current	6,634	91,703	- %	91,703	
	JPMorgan (Taiwan) Pacific Balanced Fund	—	Available-for-sale financial assets - current	2,067	106,455	- %	106,455	
	Fuh Hwa Digital Economy Fund	—	Available-for-sale financial assets - current	14,996	151,762	- %	151,762	
	PineBridge Preferred Securities Income Fund	—	Available-for-sale financial assets - current	5,874	73,185	- %	73,185	
	Manulife Superior Selection China Fund	—	Available-for-sale financial assets - current	2,503	24,624	- %	24,624	
	FSITC Global Utilities and Infrastructure Fund	—	Available-for-sale financial assets - current	6,000	60,000	10.00%	47,545	
	Ordinary shares	—	Financial assets carried at cost - noncurrent	20,000	200,000	18.50%	174,160	
	Eminent Venture Capital Corporation	—	Financial assets carried at cost - noncurrent	15,000	150,000	16.56%	149,550	
	Eminent III VC Corp	—	Financial assets carried at cost - noncurrent	13,872	52,800	2.00%	1,025,421	
	Taiwan Stock Exchange Corporation	—	Financial assets carried at cost - noncurrent	1,951	19,512	9.76%	16,499	
	Top Taiwan V Venture Capital Co., Ltd	—	Financial assets carried at cost - noncurrent	3,147	20,989	10.31%	29,111	
	Visgeneer Inc.	—	Financial assets carried at cost - noncurrent	741	7,667	16.67%	14,419	
	TaiAn Technologies Corporation	—	Financial assets carried at cost - noncurrent	3,360	33,600	19.75%	35,212	
	TSCBio Ventures Capital Co.	—	Financial assets carried at cost - noncurrent	1,500	-	6.71%	3,257	
	Ding-Tang	—	Financial assets carried at cost - noncurrent	405	-	0.76%	1,139	
	Phalanx Biotech Co., Ltd.	—	Financial assets carried at cost - noncurrent	4,167	2,331	15.16%	10,668	
	Bion tech Inc.	—	Available-for-sale financial assets - current	9,202	141,254	0.36%	141,254	
	China Petrochemical Development Corporation	—	Available-for-sale financial assets - current	-	29,531	- %	29,531	
	Bonds	—	Available-for-sale financial assets - current	-	-	- %	-	
	International Bonds: Mizuho Financial Group	—	Available-for-sale financial assets - current	-	-	- %	-	

Note 1: The market value was calculated on the basis of the net asset value as of the balance sheet date.

Note 2: The market value was calculated on the basis of the closing price on the Taiwan Stock Exchange as of the balance sheet date.

# TAIWAN FERTILIZER CO., LTD

## Notes to the Financial Statements

Note 3: The market value was calculated on the basis of the unaudited financial statement for the same period.

Note 4: The market value was calculated on the basis of the audited financial statement for the most recent period.

Note 5: The market value was calculated on the basis of the closing rate on the Taiwan Stock Exchange as of the balance sheet date.

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$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	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
Taiwan Fertilizer Co., Ltd.	Mega Diamond Money Market Fund	Available-for-sale financial assets - current	-	-	153,746	1,909,265	16,079	200,000	153,746	1,900,000	1,910,327	10,327	16,079	200,439
Taiwan Fertilizer Co., Ltd.	Jih Sun Money Market Fund	Available-for-sale financial assets - current	-	-	84,947	1,246,145	63,961	940,000	84,947	1,240,000	1,248,022	8,022	63,961	941,983

Note: Unrealized gain and loss on financial assets were recognized.

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

(In Thousands of New Taiwan Dollars)

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

(In Thousands of New Taiwan Dollars)

- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$300 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/Account
			Purchase/Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance
Taiwan Fertilizer Co., Ltd.	AI-Jabail Fertilizer Company	Equity-method investee	Purchase	942,151	14.77%	Same as those for third parties	Determined under the considerations of international market price and production cost	30 days	(581,274)

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amount subscribed
					Amount	Action taken	
Taiwan Fertilizer Co., Ltd.	TR ELECTRONIC CHEMICAL CO.,LTD.	Jointly controlled entity	Other receivable 317,277	-	317,277	-	

- (ix) Trading in derivative instruments: None

**TAIWAN FERTILIZER CO., LTD**  
**Notes to the Financial Statements**

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2017 (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, 2017			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value			
Taiwan Fertilizer Co., Ltd.	Al-Jubail Fertilizer Company	Kingdom of Saudi Arabia	Manufacture of urea, 2-EH (2-ethyl hexanol), and DOP (dioctyl phthalate)	3,050,000	3,050,000	7	50.00%	9,538,520	1,323,622	622,846	Associate
	Taifer Chemicals International Inc	Taiwan	International trade; wholesale of fertilizer, tobacco, liquor, beverage, forage, machinery, electrical equipment, etc.; development, operation and management of residential buildings and factory buildings; special zone development; investment in and construction of public works; development of new towns and districts; agent services on regional district requisition; land adjustment; and real estate rental or leasing	126,300	126,300	5,500	100.00%	79,001	5,587	5,414	Subsidiary
	Taiwan Yes Deep Ocean Water Co., Ltd.	Taiwan	Wholesale of drinks, food and grocery and other articles for daily use; tobacco and liquor; glass and pottery; hygiene products; fertilizers and other chemical products; and cosmetics; and international trade	1,224,235	1,224,235	25,763	100.00%	388,870	(48,989)	(80,255)	Subsidiary
	TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	Cayman Islands	Investment and holding	321,990	321,990	11	100.00%	-	-	-	Subsidiary
	MITAGRI Co., Ltd.	Taiwan	Wholesale and retail of products for organic agriculture	-	100,000	8,000	33.33%	74,158	(36,993)	(25,306)	Note 1
	TAIFER (CAMBODIA) CO., LTD	Cambodia	International trade; wholesale of fertilizer	40,052	40,052	-	100.00%	27,683	1,759	1,759	Subsidiary
	TAIFER INTERNATIONAL (SAMOA) CO., LTD.	Samoa	Investment and holding	9,348	9,348	-	100.00%	8,928	-	-	Subsidiary
	PEIFENG Technology & Fertilizer Co., Ltd.	Taiwan	Manufacture and wholesale of fertilizer	400,000	-	40,000	100.00%	397,919	(2,081)	(2,081)	Subsidiary
	TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	Cayman Islands	Investment and holding	321,962	321,962	-	51.00%	-	-	No applicable	Jointly controlled entity
	Taiwan Yes Deep Ocean Water Co., Ltd.	Hasbo Biotech Co., Ltd.	Taiwan	Wholesale of Nonalcoholic Beverages and Cosmetics	240,000	240,000	-	-%	-	(4,063)	-
Taifer Chemicals International Inc.	TAIFER INTERNATIONAL (SAMOA) GROUP CO.,LTD.	Samoa	Investment and holding	42,618	42,618	-	100.00%	54,150	4,002	-	Subsidiary
TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD.	TAIFER CHEMICAL INTERNATIONAL CO.,LTD.	Mongolia	Real estate rental and leasing	41,077	41,077	-	100.00%	53,895	4,012	-	Subsidiary

Note 1: Taifer Biotech Co., Ltd. was renamed to Taiwan Agricultural Global Marketing Co., Ltd. and MITAGRI Co., Ltd. on August 16, 2016 and June 28, 2017, respectively. Afterward, since the Company subscribed to additional shares of MITAGRI Co., Ltd. at a percentage different from its existing ownership percentage and the directors and supervisors of MITAGRI Co., Ltd. were re-elected during the provisional meeting of shareholders, the Company no longer has any significant influence over MITAGRI Co., Ltd. (see note 6(f))

Note 2: The liquidation has been conducted since October 2017, and the relevant statutory procedures is not completed yet as of the date of auditors' report.

## TAIWAN FERTILIZER CO., LTD

### Notes to the 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, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
TR Electronic Chemical (Kunshan) Ltd.	Manufacture of nitric acid, hydrofluoric acid, ammonia, phosphoric acid, oxalic acid, ammonia fluoride and LCD and IC Stripper	USDS\$21,500 (NTS\$639,840) (note 4)	( )	USDS\$10,965 (NTS\$326,318) (note 4)	-	-	USDS\$10,965 (NTS\$326,318) (note 4)	USDS- (NTS - ) (note 1 and 5)	51.00%	USDS- (NTS - ) (note 6)	USDS- (NTS - ) (note 4)	-

(ii) Limitation on investment in Mainland China:

(In Thousands of New Taiwan Dollars)

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
NT\$ 326,318 (US\$ 10,965 ) (note 4)	NT\$ 326,318 (US\$ 10,965 ) (note 4)	NT\$ 29,455,471 (note 2)

Note 1: The Company applied for the cessation of its operations to the local court on March 17, 2017.

Note 2: The limit is based on the "Regulations Governing the Approval of Investment or Technical Cooperation in Mainland China" issued by the Investment Commission under the Ministry of Economic Affairs; the amount is 60% of shareholders' equity or of consolidated shareholders' equity.

Note 3: Indirect investment in mainland China through a subsidiary in a third place. (Investor: TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.)

Note 4: The foreign currency amounts of original investment amount and carrying value were translated into New Taiwan dollars at the exchange rate 29.76 as of December 31, 2017.

Note 5: The foreign currency amount of investment gain/loss was translated into New Taiwan dollars at an average exchange rate 30.4315 for the year ended December 31, 2017.

Note 6: As of June 30, 2015, the investment accounted for using the equity method balance of the Corporation was zero, so the Corporation didn't recognize income (loss) of the investment.

(iii) Significant transactions: None

#### (14) Segment information:

Please refer to the consolidated financial report for the years ended December 31, 2017 and 2016.

**VI. The company and its affiliates shall disclose the impact on their financial status in the most recent year and up to and including the date of publication of the annual report: N/A**

## Chapter Seven: Financial Status, Review and Analysis of Financial Performance and Risks

### I. Financial Status

Unit: NT\$K

Account \ Year	2017	2016	Variance	
			Amount	%
Current Assets	14,192,823	15,301,306	(1,108,483)	(7.24)
Property, Plants and Equipment	13,744,278	26,753,401	(13,009,123)	(48.63)
Intangible Assets	234,595	257,986	(23,391)	(9.07)
Other Assets	46,985,195	34,405,109	12,580,086	36.56
Total Assets	75,156,891	76,717,802	(1,560,911)	(2.03)
Current Liabilities	2,231,866	1,680,062	551,804	32.84
Non-current Liabilities	23,832,573	24,433,314	(600,741)	(2.46)
Total Liabilities	26,064,439	26,113,376	(48,937)	(0.19)
Capital	9,800,000	9,800,000	0	0.00
Paid-in Capital	2,232,791	2,232,791	0	0.00
Retained Earnings	37,094,340	37,976,750	(882,410)	(2.32)
Equity Attributable to Equity Holders of the Parent Company	49,092,452	50,604,426	(1,511,974)	(2.99)

Note: The finance statements for the fiscal year 2016 and 2017 are attested by independent auditors.

#### Variance Analysis:

1. Property, Plants and Equipment: The main reason of decrease in property, plants and equipment is that a specific part of the land was reclassified to investment property because of land readjustment and plan changes.
2. Other Assets: Increase in other assets is because a specific part of the land was reclassified to investment property because of land readjustment and plan changes.
3. Current Liabilities: The main reason for the increase in current liabilities is because of the increase in accounts payable and income tax liability for the current period.

## II. Financial Performance

### (I) Financial Performance Comparison and Analysis

Unit: NT\$ in Thousand

Accounts \ Year	2017	2016	Increase (Decrease)	Variance %
Total Operation Revenue	11,794,012	12,265,584	(471,572)	(3.84)
Less: Sales Return and Discounts	(135,026)	(24,664)	110,362	447.46
Net Operation Revenue	11,658,986	12,240,920	(581,934)	(4.75)
Operation Costs	9,057,761	10,234,666	(1,176,905)	(11.50)
Gross Margin	2,601,225	2,006,254	594,971	29.66
Operating Expenses	1,373,287	1,410,560	(37,273)	(2.64)
Operating Income	1,227,938	595,694	632,244	106.14
Non-operating Income and Expenses	606,115	(616,713)	1,222,828	198.28
Income (loss) Before Tax	1,834,053	(21,019)	1,855,072	8,825.69
Income Tax Expenses (income)	214,927	108,484	106,443	98.12
Net Income (loss)	1,619,126	(129,503)	1,748,629	1,350.26

Note: The finance statements for the fiscal year 2016 and 2017 are attested by independent auditors.

Analysis for Variance of 20% or Above:

1. Sales Return and Discounts: Sales return and discounts increased because of the selling price adjustment of the re-sale of Urea.
2. Gross Margin: The increase in gross margin is mainly because of the synergistic impact generated by a niche product of the fertilizers chemical business and energy integration at the Taichung plant.
3. Non-operating Income and Expenses: Increase in net non-operating income is because of the recognition of re-investment income in the current period.
4. Net Income: Increase in net income is because both the increase in fertilizers chemical business and re-investment income.

### (II) Gross Margin Variance Analysis Schedule

Unit: NT\$ K

	Increase (Decrease)	Reasons of Difference			
		Difference in Selling Price	Cost Difference	Quantity Difference	Others
Gross Margin	594,971	(486,599)	1,018,077	117,093	(53,600)
Explanation	Compared to the previous year, the gross margin increase is mainly because the gross margin of the fertilizers chemical business increased by NT\$ 661 million, it is the result of the impact of launching niche products and favorable cost variance due to the synergistic impact generated by energy integration at the Taichung plant.				

### III. Cash Flow

#### Cash Flows Review and Analysis Schedule

Unit: NT\$K

Cash Balance at Beginning	Cash Inflows (outflows) From Operating Activities	Cash Inflows (outflows)	Cash (insufficiency) Balance	Countermeasures for Cash Insufficiency
				Financing Plan
1,084,835	2,599,356	(1,417,971)	2,266,220	—

1. Movement analysis of cash flows of the current period:
  - (1) Net Cash Inflows From Operating Activities: The main reason for cash inflows from operating activities is because of the cash dividends received from investee companies.
  - (2) Net Cash Outflows From Investing Activities: Mainly because of the decrease in other financial assets.
  - (3) Net Cash Outflows From Financing Activities: Because of the cash dividends received from investee companies.
2. Countermeasures for Cash Insufficiency and Liquidation Analysis: None
3. Cash Liquidation Analysis for Next Year:

Unit: NT\$K

Cash Balance at Beginning	Cash Inflows (outflows) From Operating Activities	Cash Outflows	Cash (insufficiency) Balance	Countermeasures for Cash Insufficiency
				Investment Plan
2,266,220	1,477,688	2,628,807	1,115,101	—

### IV. Impact to the Financial Business by the Significant Capital Expenditures in the Previous Year

#### (I) Utilization Status and Source of Funds for Significant Capital Expenditures in the Previous Year

Unit: NT\$K

Project	Actual or Expected Source of Funds	Actual or Expected Finish Date	Total Funds Needed	Actual Accumulated Disbursements as of December 31, 2017	Expected Utilization Amount in 2018
Pei Fong Technology Co., Ltd. Project (Originally from west wharf 10 Taichung port new plant project)	Equity Fund	June 2017- June 2020	2,400,000	400,000	400,000

**(II) Expected Potential Benefit: Expected Sales Quantity, Value and Gross Margin Increase**

Unit: NT\$K

Year	Project	Production Quantity	Sales Quantity	Sales Value	Gross Margin
After 2021	Pei Fong Technology Co., Ltd. Project (Originally from west wharf 10 Taichung port new plant project)	Planned Nitro-phosphorus based compound fertilizer plant, annual capacity 162,500 tons.	60,000 tons of Nitrophosphorus-based compound fertilizer is for domestic sales, all others (102,500 tons) will be exported.	Annual revenue NT\$ 3,528,000 thousand.	Gross margin: 8.76%

Note: Based on the estimation of the plan

## V. Re-investment Overview

### (I) Main Reasons, Improvement Plan for Re-investment Policy, Profit or Loss for Previous Years:

#### 1. Re-investment Policy

Based on the concept of consolidating basis, innovation, and sustainable operation, the company has transformed its corporate physique gradually, and demonstrated its global vision of “Based in Taiwan,” “View the Whole World.” It cooperates with national policies and takes “New Agricultural Smart Industry”, “Organic Ecological Industry”, and “Southbound Fertilizer Chemicals” as the main developing shaft. Using the operational experience of Jubail Fertilizer Company in the fertilizer industry, it is developing any possible overseas investment opportunities, with the expansion of the fertilizer market in emerging countries such as ASEAN to create a new stage of the fertilizer industry.

#### 2. Main reasons, improvement plan for re-investment policy, profit or loss for previous years

Re-invested Company	Main Reason for Profit or Loss in 2017	Improvement Plan
Al-Jubail Fertilizer Company	Global price recovery and stabilization, the plant operating smoothly and profitably.	N/A
Taiwan Yes Deep Ocean Water Co., Ltd.	Because of low activation, the allocation of fixed costs is still high, the income tax assets are reclassified as expenses, and the pyramid sales organization is missing. All the reasons above led to the loss in 2017. However, relevant operational improvements were implemented in the second half of 2017, and the losses are decreasing.	(1) Expenses control (2) Reduce manufacturing costs (3) Organize lean plan (4) Develop niche products

### (II) Investment Plan for Next Year:

**Fertilizer Chemical Industry:** Because of the slight change in the domestic demand for fertilizers, the Company intends to expand the production capacity of new nitro-phosphorus based compound fertilizers developed in-house. Not only to satisfy and improve the local fertilizing quality but also gradually expanding the overseas fertilizer market, extending the scope of the fertilizer chemical industry. The Company now plans to build a new nitro-phosphorus based compound fertilizers plant with a production capacity of approximately 162,500 tons in the Taichung Port District, to produce a new type of peat-added product, “Hay-Won”; and to build three chemical storage tanks with a capacity of 3,000 kiloliters each. It will import and sell nitrate downstream derivatives such as MDI, TDI, PPG and other chemicals to demonstrate the synergy of nitric acid production and create more profit for the company.

**Agricultural innovation industry:** Agriculture has been the cornerstone of Taiwan's development. Recently, the government has actively promoted smart agriculture and fostered the transformation of traditional agricultural into new agribusiness. The Taipei Exchange also added the “Agricultural-Tech” industry category in 2016. In order to get

ahead of the game, the Company has begun to plan to work with domestic agribusinesses with growth potential, through the use of scientific technology or unique operation models of smart agriculture, to establish an industrial platform to enhance agricultural research and development, production and marketing efficiency and product value, and aggressively extend the application development opportunities of the Company's industry and to increase Company profit.

## VI. Risk Management Organization

### Risk Management Organization Chart:

According to the latest internal audit development and requirements of standards, the Company has strengthened the management of corporate risks, including risk detection, assessment, reporting and following up, both cautious and strict. Three levels (mechanisms) are responsible for the risk control of the Company: The organizer or the person in charge is the “first mechanism” and must take responsibility for the mechanical design and prevention of the detection of initial risk, assessment, and control. The second mechanism is the general manager (or deputy general manager), especially the approval document or its review or appraisal committee. In addition to the feasibility assessment, it also includes various risk assessments. The third mechanism is the review of the Legal Affairs and Audit Department and deliberation by the Board of Directors. The Company has not set up the Chief Risk Officer at this time. The purpose of this is to ask all employees to perform risk control. It is the most practical approach for risk management that involves multi-level prevention rather than one-man control. See the following table:

Significant Risk Assessment Items	Direct Unit for Risk Control (Business In-charge Unit) (First Mechanism)	Risk Deliberation and Control (General Manager/ Deputy GM) (Second Mechanism)	Legal, Audit Office and the Board of Directors (Third Mechanism)
1. Interest Rate, Exchange Rate and Financial Risks	Financial Department	General Manager, Deputy GM, Financial Department	Board of Directors: Decision making and ultimate control of risk assessment and control  Audit Office: Examination, assessment, monitoring, improvement, following up and reporting of risks.
2. Risks Such as High Risk and High Leverage Investment, Capital Lending to Others, Derivative Products Trading, Financial Wealth Management Investment, etc.	Financial Department		
3. R&D Plan	R&D Department	General Manager, Deputy GM, Planning Department, Financial Department, In-Charge and Relevant Unit	
4. Policy and Legal Change	Planning Department, Legal		
5. Technology and Industry Change	R&D Department, Planning Department, Business Development Department		
6. Corporate Image Change	Administration Department, Board of Directors Office		

Significant Risk Assessment Items	Direct Unit for Risk Control (Business In-charge Unit) (First Mechanism)	Risk Deliberation and Control (General Manager/ Deputy GM) (Second Mechanism)	Legal, Audit Office and the Board of Directors (Third Mechanism)
7. Investment, Re-investment and Merger Benefits	Sales Department, Planning Department, Business Development Department, Real Estate Development Department, Property Management Department		
8. Expansion of Plant or Production Capacity	Production Department, Trading Department	Business Meeting Report, Performance Review Meeting,	
9. Centralized Procurement or Sales	Sales Department, Trading Department	Manufacturing and Sales Meeting.	
10. Shareholdings Transfer for Directors, Supervisors and Main Shareholders	Board of Directors Office	General Manager, Deputy GM, Board of Director Office, Legal, Planning Department	
11. Management Power Change	Board of Directors Office		
12. Litigation or Non-litigation Items	Legal		
13. Other Operating Issues	Planning Department, Administration Department		
14. Personnel Behavior, Ethics and Integrity	Various Supervisor and Administration Departments	Personnel Appraisal Committee	
15. Compliance of SOP, Legal and Regulations	Various Supervisors and Legal	Planning Department	
16. Management of the Board of Directors	Board of Directors Office	Legal	
17. Significant Information Management and Insider Trading Prevention	Director, Supervisor, Manager and people who aware of the information	Spokesman System, Confidential	
18. Information Security	Information Department	General Manager, Deputy GM	
19. Environment Health and Safty	Safty and Health Center	General Manager	

## VII. Risk Assessment

### (I) Impact of Interest Rate Change, Exchange Rate Change, and Inflation on the Company's Profit and Loss and the Countermeasures in the Future

#### 1. Interest Rate Change

The net interest income of the Company for the year ending December 31, 2017 and for the quarter ending March 31, 2018 was NT\$ 83,020,000 and NT\$ 23,333,000 respectively, which accounted for 0.71% and 0.74% of the net operating revenue. Therefore, there was no significant impact on the Company's operations and profit. In the future, in response to the change of interest rate trends, we will actively look for higher returns and lower cost targets to reduce interest rate risk.

#### 2. Exchange Rate Change

For the year ending December 31, 2017 and the quarter ending March 31, 2018, the Company's net exchange gain (loss) amounted to NT\$ (36,083,000) and NT\$ (22,850,000) respectively, which accounted for (0.30%) and (0.72%) of net operating revenue. Therefore, there was no significant impact on the Company's operations and profit. In the future, to reduce exchange risks, we will actively develop foreign exchange hedge strategies in response to the changes in exchange rate trends.

### (II) Policy on High Risk, High Leverage Investment, Capital Lending and Others, Endorsement of Guarantee and Derivative Products Trading, and Main Reasons for Profit or Loss and Countermeasures in the Future

1. High Risk, High Leverage Investment, Capital Lending and Other Derivative Products Trading: N/A, the Company never engaged in these businesses.
2. Endorsement and Guarantee: As of March 31, 2018, the total balance of endorsement and guarantee is NT\$ 13,500,000.

### (III) Future R&D Plan and Estimate of R&D Expenses

R&D for the next two years will concentrate on:

1. Microbiological material R&D and establishment of application technology.
2. Strawberry (fertilizer, medium) material development plan.
3. Algae polysaccharide extraction technology research and development.
4. Deep seawater for aquaculture application development.
5. Miaoli Plant wastewater process technique improvement.

To enable sustainable growth, Taiwan Fertilizer Co., Ltd. will continue to strengthen research and development. The estimated total R&D budget will be about NT\$ 50-60 million each year. The R&D plan for the next two years is summarized as follows:

#### 1. Microbiological Material R&D and Establishment of Application Technology

With industry-academia cooperation and the transfer of technology, combined with the Company's internal microbial fermentation core technology, establish a fermentation mass production technology for beneficial crop antagonistic bacteria, using organic materials and fertilizer materials to develop biotechnology fertilizer and biopesticides that combine both fertilizer effectiveness and the prevention of insect pests. In addition, in coordination with the government's agricultural recycling economy policy, renewable energy, venous industries, local production and marketing, and innovation of various types of waste recycling and recycling industries and transformation into reusable organic material products, combined with various activities of the Sales Department,

aggressively promote the organic fertilizer market and expand the promotion of organic materials; with established crop cultivation techniques developed by the Company, we will continue to look for cooperation with outside organic demo farms as an exchange base, to expand the promotion of organic and friendly agriculture. Total R&D disbursement for the next two years will be NT\$ 30 million.

## **2. Strawberry (fertilizer, medium) Material Development Plan**

In 2017, the Company cooperated with “Yuanpei University of Medical Technology” for a “Japanese-style safe strawberry cultivation management test” project. The Company has verified that the strawberry production technology and materials used in the Miura Agricultural Park in Japan have positive results in growing strawberries. In the future, we will cooperate with farmers to expand field trials and confirm the feasibility of the technology in field practice. If the results of cultivation and use of supporting materials is useful, we will evaluate whether to transfer the technology and introduce related materials for trial development, and promote them with the Company's supporting materials to encourage the promotion of the strawberry industry to flourish. In the next two years, total related technical verification and R&D disbursement for fertilizer materials will be about NT\$ 5 million.

## **3. Algae Polysaccharide Extraction Technology Research and Development.**

The Company entrusted National Taiwan Ocean University to evaluate the constituents and the antioxidant and immunomodulatory physiological activities of polysaccharides from large-scale algae cultivated with deep seawater by the Company in 2015. The results showed that in the polysaccharides extracted from *Ulva Lactuca* nurtured by the Company, ash content is much higher than that extracted from wild *Ulva Lactuca*, and it is the best nutritional supplement for scavenging DPPH free radicals. In addition, the Company's *Auricularia auricula* polysaccharides have the best results in inhibiting the generation of macrophage nitric oxide (inhibition rate of 85.49%), and the promotion of macrophage phagocytosis (promotion rate of 58%), with excellent immunomodulatory effect. In the future, the Company will cooperate with external parties to develop alga polysaccharide extraction technology with large-scale seaweeds of the Company, assess the development of the algae polysaccharide raw material market, and decide whether to introduce new technologies, develop functional algal polysaccharide raw materials and health functional derivative products. The total R&D disbursement will be about NT\$ 10 million for the next two years.

## **4. Deep Seawater for Aquaculture Application Development**

Optimize the utilization of deep ocean water, and employ the characteristics of purity and nutrient-richness of deep seawater salt in multi-stage tandem for large-scale algae, fish, and shrimp aquaculture, further demonstrating the specific diversification of deep ocean water cooling energy. In 2018, the Company will establish a complete algae breeding and production module and a primary processing production chain, and research in-depth and develop the sexual reproduction technology of various algae and develop derivative foods at the same time to increase the characteristics and richness of algae products. In the shrimp growing sector, acquire shrimp seed of white shrimp from Fisheries Research Institutes or other vendors that can produce high-yield and Specific Pathogen Free (SPF) shrimp to increase aquaculture production quantity and reduce the risk of aquaculture; For tiger prawns, in cooperation with National Cheng Kung University, we will utilize the existing production module culture ponds in the company's Hualien Plant area to establish tiger prawn breeding techniques and produce high quality, healthy and safe aquatic products. The total R&D disbursement in the next two years will be about NT\$ 20 million.

## 5. Miaoli Plant Wastewater Process Technique Improvement

Two significant improvements for the wastewater processing for the Company's Miaoli Plant: 1. Treat part of the high COD wastewater to reduce the COD to a reasonable level, and then enter the original wastewater treatment system, to avoid the death of biological bacteria in the biological treatment tank; 2. Stable reduction in the concentration of Nitrate nitrogen in the effluent. The project will cooperate with the National Cheng Kung University for industry-academia cooperation, and the total R&D disbursement is approximately NT\$ 13 million in the next two years.

## 6. The main factors affecting the success of R&D are:

- (1) The leading edge of technology.
- (2) Integration of internal and external resources.
- (3) Product marketing ability and market feedback mechanism.

## (IV) Impact of Important Policies and Legal Changes at Home and Abroad on the Company's Financial Business and Response Countermeasures

1. To take care of the farmer, lessening the burden of the cost of fertilizer for the farmer, the government has implemented a subsidy policy for fertilizers since 2008. Meanwhile, the "Fertilizer Prices Review Group" was established by the Council of Agriculture (COA) to review the domestic factory price of chemical fertilizers on a monthly basis based on the costs of international fertilizer raw materials. The fertilizer producer's factory price was regulated. However, due to the price decrease in the global raw materials in 2017, the government terminated the phase task of subsidizing chemical fertilizer spreads in July of 2017. In the future, the Company will continue to seize sources of raw materials and set the goal to reduce the impact of price fluctuations.
2. The Presidential Announcement promulgated the Income Tax Act on June 24, 2015. Starting from January 1, 2016, when the individual or profit-seeking enterprises have been engaged in the trade of houses, houses and the bases or land for which construction licenses have been issued according to law (hereinafter collectively referred to as housing, land), the income from the transaction shall be subject to an income tax in accordance with Category 4, Article 14 to Category 8, Article 14 and Article 24-5 of the Act. Most of the Company's land was acquired before January 1, 2014, so the combined new tax system of uniting the base and building did not have much impact on the Company's existing land development.
3. The Department of Land Administration of the Ministry of the Interior and Lands Division amended the "Regulations for the Implementation of Cadastral Surveys" mainly to respond to the public regarding the expectations of improving the issue of virtual ping of buildings, to remove awnings and canopies based on the regulations of the surveying and mapping regulations for accessory building, and to change the boundaries of surveying and mapping of underground buildings to the floor area (wall center) boundary contained in the floor plan. New construction of a building that has applied for a construction permit prior to its implementation on January 1, 2018 may be handled in accordance with the old regulations; new construction licenses applied for by the Company after effective date in the future will apply new regulations and shall be subject to be adjusted for the sales ping.
4. According to the House Tax Act of the Ministry of Finance, "The standard values of houses shall be reassessed once every three (3) years". Taipei City increased road section rates, and the cost of new construction building in 2014 will increase the holding costs of new construction housing developed by the Company in the future. Hsinchu County/City also re-assessed the standard unit price table in 2016, which applies to new, increased, and reconstructed houses starting from July 1, 2016.

**(V) Impact of Technological Changes and Industrial Changes to the Company's Financial Business and the Countermeasures**

1. With the change of Taiwan's agricultural structure and the increasing emphasis on environmental protection and health preservation awareness of the citizens, the Company has started to build an organic fertilizer plant for the production of organic fertilizers; with the superior material supply system and fermentation technology and taking advantage of the Company's excellent brand image it will reshape the image of the "Known-You" brand of organic fertilizer and to enter the domestic and foreign organic fertilizer market. Continue to improve the formula and introduce a variety of beneficial microorganisms; also, introduce a post-fermentation process to improve the quality of organic fertilizer products.
2. Due to the severe impact of international raw material and energy price fluctuations on the production of fertilizers and chemical products of the Company, for the purpose of grasping the sources of raw materials and reducing the impact of price fluctuations, the Company has strengthened supply contracts with manufacturers and continued the investment contract with SABIC in Saudi Arabia; also, it has actively implemented a downstream related product integration investment plan and energy transfer investment plan in order to improve the overall operating synergy of the Company.

**(VI) Impact of Corporate Image Change on Corporate Crisis Management and the Countermeasures**

The Company was originally a state-owned enterprise and has been transformed into a private Company since September 1, 1999. The Company has continued to reform its business with a diversified operation implemented to improve operating performance; also, it has changed people's stereotyped images of a company with a state-owned business operation. The Company's corporate image has been positively promoted; however, while pursuing reasonable profits, the Company still fully cooperates with the government to take care of the farmers and uphold the downstream chemical industry policies, to stably supply domestically-needed fertilizers and chemical products at a reasonable price, and to execute various industrial pollution prevention tasks and care for the benefit of employees. The Company established the Taiwan Fertilizer Foundation in 2007 to take care of farmers and underprivileged individuals; also, it aims to exercise corporate social responsibility in order to fulfill the three operating objectives, including "promoting stable development of the Company's operations," "protecting the interest of the Shareholders of the Company," and "performing the social responsibility of the Company."

**(VII) Expected Benefits, Possible Risks, and Countermeasures of Mergers and Acquisitions**

There are not any mergers and acquisitions planned this year.

**(VIII) Expected Benefits, Possible Risks, and Countermeasures of Expansion of Plants**

The plans for the relocation of the Company's factories to Taichung Port were completed in 2015 and the development will be carried out in three phases. The first phase will be for land filling and geology improvement, harbor loading and storage facilities, raw material storage systems, public systems, other infrastructure constructions, and new construction projects for nitric acid and nitrate-phosphorus plants. The second phase will be for the construction of phosphonium and ammonium sulfate plants and the relocation of an old nitrate-phosphorus plant. The third phase will be for the construction of a new phosphate fertilizer plant. The production in each old plant will be ceased gradually and the relevant production machinery and equipment will be relocated to the new plants in accordance with the principle of "build new plants, relocate old plants" to continue the overall operation of the Company and ensure that

the fertilizer supply business will not be interrupted due to the development of this plan.

The Company has been producing fertilizers for more than 72 years and is quite skilled in various fertilizer production processes. The business product items in this plan are all current business items on the production line:

1. Chemical Products: liquid ammonia, urea, phosphoric acid, nitric acid, sulfamic acid, and other chemicals.
2. Fertilizer Products: Potassium chloride, heavy superphosphate, superphosphate, nitrate-based compound fertilizer, cerium-phosphorus compound fertilizer, organic compound fertilizer, biotech microbial fertilizer, instant compound fertilizer, biotechnology nutrient solution, ammonium sulfate, calcium ammonium nitrate, and various fertilizers.
3. Warehoused Products: In line with the increase in the utilization rate of the harbor unloading business, the Company will actively strive to apply to the Port of Taichung to become a qualified statutory unloading and storage company to undertake the customs declaration and tally business of the import and export goods of the fertilizer industry or other businesses.

In line with the implementation of this plan, in addition to screening the world's excellent manufacturing processes, the Company will strictly request these international manufacturers to provide patent technology guarantee in compliance with production specifications; also, combine each plant's many years of operating experience in the design improvement to refine the production process in order to lay a foundation for future successful business operation. Moving the production of each plant to Taichung Port, will help increase productivity, efficiency, product portfolio, unloading management efficiency, and complementary use of raw materials in order to reduce costs. In particular, the production site is close to major fertilizer markets, such as, Taichung, Nantou, Yunlin, Chiayi, and Tainan, which are highly beneficial to the management of sales channels, reduction of transportation costs, and market integration and competition.

**(IX) Risks of Purchases or Sales Concentration and Countermeasures**

1. The main suppliers of the Company are SABIC Fertilizer Company, Sabic Asia Pacific, and Arab Potash Co. Ltd., among which SABIC Fertilizer Company is a company jointly invested in by the Company and Sabic in Saudi Arabia. The Company has urea supplied and shipped according to the cooperation contract. Sabic Asia Pacific sells liquid ammonia to the Company on behalf of various companies in Saudi Arabia. Arab Potash Co. Ltd. is an important global manufacturer of potassium chloride. The three companies have had good business relations with the Company for years. Apart from paying attention to the supply quality and goodwill of each raw material supplier, the Company also judges business conditions, prepares safety stocks, and follows-up on shipping lead time; therefore, the risk of facing purchase concentration is insignificant.
2. The Company's major customers for fertilizer products are farmers' associations in all counties and cities of the country, with dispersion of sales, and there is no risk of concentration of sales.

**(X) Impact of Significant Equity Transfer of Directors, Supervisors, or Major Shareholders Holding More than 10% of the Shares of the Company, the Risks, and the Countermeasures: N/A**

**(XI) Impact of Changes in Operating Rights of the Company, the Risks, and the Countermeasures: N/A**

**(XII) Litigation or Non-litigation Events**

List the closed or pending major lawsuits, non-litigations or administrative dispute events of the Company, the Company's Directors, Supervisors, President, Responsible Person, Major Shareholders holding more than 10% of shares, and wholly-owned companies. A litigation case whose results may have a material effect on Shareholders' equity or the price of securities should disclose the facts of the dispute, the amount of the subject matter, the commencement date of the lawsuit, the main parties involved in the litigation case, and the handling of the case as of the publication date of the Annual Report.

1. Starting from 2015, the Company planned to carry out the "New construction of the D7 Science and Technology Business District residential building of the Taiwan Fertilizer Company in Hsinchu City" at D7 Street (Dongming Section 967 and land lot No. 1026) of the Science and Technology Business District in Hsinchu City, including "Residence Stage 1" (29 floors, 3 floors underground), "Residence Stage 2" (29 floors, 3 floors underground), "Office Stage 1" (13 floors, 3 floors underground), and "Office Stage 2" (16 floors, 3 floors underground). An urban design review application was filed with the Department of Urban Development, Hsinchu City Government on April 28, 2015 for the "Residence Stage 1" project while another urban design review application was filed on June 18, 2015 for the "Residence Stage 2," "Office Stage 1," and "Office Stage 2" jointly. An application for the building permit of the four projects (4 building permits registration numbers were No. 1040522112510-00014 "Residence Stage 1", No. 1040522112515-00011 "Residence Stage 2", No. 1040522112517-00019 "Office Stage 1", No. 1040522112521-0015 "Office Stage 2") was filed on June 10, 2015 with the Department of Public Works of the Hsinchu City Government. Applications were filed on December 7, 2015, June 1, 2016, and November 22, 2016 to defer the review of the building permits. Applications filed for a deferred review included a statement of "continuing to have the design adjusted since this case involves urban design review; therefore, the building permit review is not completed in time." Also, the progress of the urban design review is listed for approval. Unexpectedly, the Hsinchu City Government issued four letters including Fu.Gong.Jen.Zi No. 1050091485 on June 7, 2016 and another four letters including Fu.Gong.Jen.Zi No. 1050172417 on December 2, 2016 to reject the aforementioned building permit application and deferred review application of the Company due to the failure of submitting the correct urban design approval sheet in accordance with Article 36 of the Building Act. Furthermore, at "The 202<sup>nd</sup> Hsinchu City Urban Design and Land Use Development Permissions Review Committee Meeting" on December 8, 2016, for the reason of responding to the "Upper limit of the statutory floor area after adding building floor area" implemented on July 1, 2015, applications that are filed for building permits after June 30, 2015 are subject to the new regulations; therefore, the urban design review application filed for the "Residence Stage 1" was dismissed. In addition, Fu.Du.Far.Zi No. 1050186797 Letter was issued on December 23, 2016, to reject the three urban design review projects, including "Residence Stage 2," "Office Stage 1," and "Office Stage 2." Due to the Hsinchu City Government's rejection of the above four applications for building permits, the applications for deferred review, and the rejection of applications for urban design review, an application must be filed for the building permit and urban design review for the 4 projects that are subject to the new regulation on the limit of 1.2 times of statutory floor area (that is, the upper limit of the incentive floor area reduced from 50% to 20%), resulting in a floor area loss of 28,594.12 square meters in the D7 Science and Technology Business District project equivalent to a loss of a market value of NT\$3 billion in property development rights. Regarding the Hsinchu City Government's not granting the Company an opportunity to give a statement in accordance with the provisions of Article 102 of the Administrative Procedure Act and dismissing the

applications for building permits, deferred review, and urban design review on the basis of the delay not attributable to the founder, the Company commissioned Attorney Jincheng Lee of Yuan He Law Firm on May 5, 2017 to file a petition requesting to revoke the unjustified disposition and to have the four urban design review applications processed and the four building permit reviews extended. Said petition was dismissed by the Ministry of the Interior on January 24, 2018 and the Company must file an administrative lawsuit with the Taipei High Court before March 25.

2. Cayman Xuchang Chemical Technology Co., Ltd. borrowed US\$10 million from Shanghai Commercial and Savings Bank - Hsinchu Branch at the beginning of 2012, and the Company and Jinqun International Co., Ltd. (hereinafter referred to as “Jinqun”) jointly acted as the joint guarantors. Due to the inability of Cayman Xuchang Chemical Technology Co., Ltd. to repay the loan and the effort of preventing leaving an overdue record of the joint guarantors with the Joint Credit Information Center, the Company repaid the loan in an amount of US\$4.57 million, US\$3.3 million, and US\$2,147,065 on June 26, 2014, April 23, 2015, and March 31, 2016, respectively, for a grand total of US\$10,017,062 on behalf of the borrower. In accordance with Article 281 of the Civil Code, the Company stipulates that one of the joint debtors who have caused the other debtor to be exempted from the debt due to the liquidation may request the debtor to repay the respective share of the loan amount, US\$5,008,532, and the interest incurred from the time of the exemption. In addition, since “Jinqun” is a foreign company in Samoa not recognized by Taiwan, for the actors who signed the credit contract and acted as the joint guarantors, including Jianliang Zhao, Songhua Jiang, Shan Shing Chemical Co., Ltd., Che-Yen Chu, Lien- Hsiang Wu Chang, Jen-Chun Chao, et al., according to Article 15 of Enforcement Act of the Part of General Principles of the Civil Code “the actor shall be jointly and severally liable for the legal act with the foreign legal person.” The aforementioned actor shall be listed as a defendant in this case to be held jointly responsible for repaying the debt of “Jinqun” as a guarantor. The Company commissioned Attorney Yongyu Lee to lodge a settlement action (with a judicature fee of NT\$1.3 million paid on August 10) with the Taipei District Court on July 18, 2017 with the case number of Chong.Su.Zi No. 1012 (Section Young of the Taipei District Court) dated 2017 assigned and the first judiciary proceedings scheduled at 9:40 am on February 8, 2018.
3. On July 31, 2011, Fulian International Property Co., Ltd. purchased 3 units (including 6 parking spaces) of the Building “Sun & Moon” from the Company, including A2/A3 on the 17<sup>th</sup> floor A2 on the 14<sup>th</sup> floor, and A5 on the 11<sup>th</sup> floor with 8 payments made up to December 19, 2014 (when the building use permit was obtained), but the mortgages and building ownership transfer registration were not completed before April 4, 2015. The Company had Fulian International Property Co., Ltd. reminded repeatedly, but Fulian International Property Co., Ltd. refused to perform the contract by asserting that the external walls of the building were poor in color and the building materials and landscape in the public area was gaudy. The Company could not help but send a legal attest letter on December 1, 2015 to cancel the contract for the purchase of the three properties and to charge a penalty for a breach of contract for an amount equivalent to 15% of the total purchase amount, NT\$47,157,000. Fulian International Property Co., Ltd. thought that the penalty for an amount equivalent to 15% of the total purchase amount was too high and had “decrease of penalty” litigation filed with the Taipei District Court on December 29, 2015, claiming that the Company should have the penalty for a breach of contract reduced to an amount not more than 7% of the total purchase and demanding the Company to refund an amount of NT\$37,939,406. The Company commissioned Attorney Maojun Wu to file the (105) Chong.Su.Zi No. 148 plea before February 2016 to detail the total amount of derivative expenses and

damages incurred due to the cancellation of the contract for more than NT\$100 million, accounting for approximately 32.14% of the total price of the three units in dispute, and to indicate that the Company had not collected excessive punitive fines. The Taipei District Court dismissed the plaintiff's lawsuit and the plea for provisional injunction with the (105) Chong-Su.Zi No. 148 civil judgment issued on July 1, 2016. The written judgment stated that: "Since the termination of the contract, the defendant did suffer loss of interest, that is, the defendant has a net profit of NT\$31,438,000 generated from the property in dispute purchased by the plaintiff and has suffered a loss in property value for an amount of NT\$24,206,756 due to the breach of contract committed by the plaintiff, a grand total of NT\$55,644,756. Under the circumstance, the penalty for an amount of NT\$47,157,000 charged by the defendant should not be considered as excessive. For the defendant received the aforementioned penalty amount according to the agreement in dispute has profound legal support. Therefore, the plaintiff's claiming that the penalty for a breach of contract charged by the defendant was too high and this Court should rule to have it decreased is hereby declined." Fulian International Property Co., Ltd. objected to the court judgment of the first instance and filed an appeal on July 22, 2016. The Company commissioned Attorney Tien-shen Chen of Yangran Law Office to serve as the appellee's action agent. The High Court had the case number of Chong.Sun.Zi No. 778 dated 2016 assigned and the first judiciary proceedings scheduled on October 22.

4. In addition, after Fulian International Property Co., Ltd. received the overruling of the aforementioned "decrease of penalty" from Taipei District Court in July 2016, Fulian International Property Co., Ltd. commissioned Attorney Jianguo Zheng of Ronyu Law Office on September 14, 2016 to file "refund of purchase amount" litigation with the Taipei District Court. The plaintiff claimed that when the public area of the "Wushong" construction project was delivered in July 2016 the building was discovered as a breeze building and the Company's advertisement was fraudulent and misleading. The three contracts for the purchase of real estate should be terminated or the purchase amount should be reduced by NT\$47,157,000 according to Article 359 of the Civil Code. However, according to Paragraph 3, Article 20 of the purchase and sale contract, Party A shall not delay in payment for the reason of failure in delivering the public area of the building. The Company commissioned Attorney Tien-shen Chen to serve as the action agent of the Company and to attend the mediation court at the Taipei District Court on October 11, 2016. The plaintiff and defendant could not mediate successfully. The Taipei District Court initiated trial procedures with the (105) Shaw.Zi No. 35 issued in 2016, but the case is currently pending while waiting for the appraisal result of the case that was submitted to the Taipei Professional Civil Engineers Association in August 2017.
5. City Bon Company, Kwong Tsuen Construction Co., Ltd., and Da Shon Company jointly purchased Building "Sun & Moon" A3-09F (including 2 parking spaces) from the Company for an amount of NT\$79,500,000 on March 18, 2011. The Company notified the three companies in writing to initiate the property ownership transfer process on June 2, 2015 within 6 months after receiving the building use permit (before June 4, 2015) according to the contract signed. However, said three companies requested to delay the installation of the ceiling and change in the kitchenware, resulting in a delay in the installation of interior decoration and a delay in confirming and signing the drawings. The Company sent a notification of building ownership transfer again with the building statement details on March 3, 2016. Apparently, the Company was not negligent in issuing a notice to the said three companies for the delivery of the building. However, the three companies filed a lawsuit to the Taipei District Court at the end of August 2016 requesting the Company to pay an amount of NT\$10,669,810 for interest

accrued from delaying in issuing a notice to the three companies and NT\$884,288 of loan interest loss, totaling NT\$11,554,098. Prior to the first notice of the building completion issued by the Company, the bank loans for the purchase of the building had not yet been approved; therefore, there was no interest expense accrued. For the unreasonable demands of the three companies, the Company commissioned Attorney Tienshen Chen of Yangran Law Office to serve as the appellee's action agent. The Taipei District Court Civil Court (Section Hong of Taipei District Court) had the case number of (105) Chong.Su.Zi No. 1060 dated 2016 assigned and the first judiciary proceedings scheduled on November 1. After more than a year of trials at the Taipei District Court with more than 10 witnesses summoned to ascertain that the Company did not delay in notifying the delivery of building, it was difficult to identify any delay in the installation of the kitchenware in dispute for a reason attributable to the Company. In other words, the lawsuit and provisional injunction filed by the three companies was dismissed on January 10, 2017.

**(XIII) Other Important Risks and Countermeasures:** None

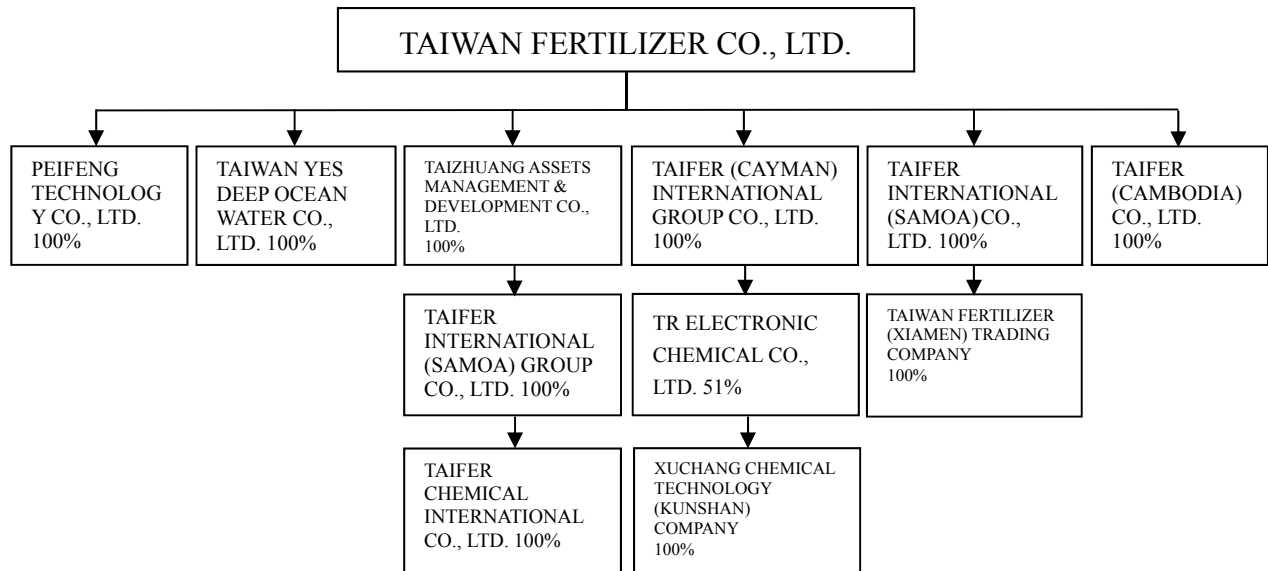
**VIII. Other Important Matters:** None

## Chapter Eight: Special Records

### I. Affiliate Information

#### (I) Consolidated revenue report of affiliates

##### 1. Organizational chart of affiliates



Note: PEIFENG TECHNOLOGY CO., LTD. was founded on June 6, 2017.

## 2. Basic information of affiliates

Company	Establishment date	Address	Paid-in capital	Business/production item
TAIWAN YES DEEP OCEAN WATER CO., LTD.	September 25, 2006	No.15, Huadong, Hualien City, Hualien County, Taiwan (R.O.C.)	NT\$ 257,632,000	Production, manufacture, and sale of bottled water, concentrated solution, cosmetics, and health care products related to deep ocean water
TAIZHUANG ASSETS MANAGEMENT & DEVELOPMENT CO., LTD.	September 9, 1999	8F., No.88, Sec. 2, Nanjing E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	NT\$ 55,000,000	Development, rent, and sale of land, houses and buildings; gas station
TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD.	February 25, 2013	TMF Chambers, P.O. Box3269, Apia, Samoa	US\$ 1,415,000	Investment and share holding
TAIFER CHEMICAL INTERNATIONAL CO., LTD.	October 19, 2001	No. 38, Tourist Street, 3rd Sub-District, Qingertai District, Ulaanbaatar, Mongolia	US\$ 1,333,000	Leasing of buildings and real estate
PEIFENG TECHNOLOGY CO., LTD.	June 6, 2017	8F., No.88, Sec. 2, Nanjing E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	NT\$ 400,000,000	Manufacture and sales of fertilizer
TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	February 1, 2011	P.O. Box 32052, Grand Cayman Ky1-1208, Cayman Island, British West Indies	US\$ 10,965,000	Investment and share holding
TR ELECTRONIC CHEMICAL CO., LTD.	November 3, 2010	P.O. Box 2804, George Town, Grand Cayman, Cayman Island, British West Indies	US\$ 21,500,000	Investment and share holding
XUCHANG CHEMICAL TECHNOLOGY (KUNSHAN) COMPANY	December 19, 2011	No. 66, Puzhong Rd., Shipuwen, Qiandeng Township, Kunshan City, Jiangsu Province, China	US\$ 21,500,000	Production and sale of nitric acid, hydrofluoric acid, ammonium water, phosphoric acid, oxalic acid, ammonium fluoride, LCD-grade and IC-grade photoresist stripper
TAIFER INTERNATIONAL (SAMOA) CO., LTD.	March 25, 2014	TMF Chambers, P.O. Box3269, Apia, Samoa	US\$ 300,000	Investment and share holding
TAIWAN FERTILIZER (XIAMEN) TRADING COMPANY	March 23, 2016	Taiwan Agricultural Products and Fruits Commercial Building, Room 201, Fl. 2, Building A, No. 1-09, Gaoqi North Rd., Xiamen Area of China (Fujian) Pilot Free Trade Zone	0 (No contribution yet)	Import, export, and wholesale of chemical products, chemical engineering products, prepackaged food, cosmetics and sanitary utensils, household utensils
TAIFER (CAMBODIA) CO., LTD.	December 22, 2014	No.11 Street 3, Sangkat Teuk Loak 3, Khan Tuol Kork, Phnom Penh. Cambodia	US\$ 1,255,000	Sale and production of fertilizer

3. Information of the same shareholders presumed having a control or affiliating relationship: None
4. Industries generally covered by the business of the affiliates:  
Major industries covered: Manufacture, sale, import, and export of fertilizer of all kinds, chemical products, care products, health care products, deep ocean water and derivatives as well as development and leasing of land, houses, and buildings.

## 5. Information of the directors, supervisors and presidents of the affiliates.

March 31, 2017

Unit: NT\$; share; %

Company	Title	Name or representative	No. of shared held	
			Shares (contribution)	Shareholding ratio
TAIWAN YES DEEP OCEAN WATER CO., LTD.	Chairman	TAIWAN FERTILIZER CO., LTD. Representative: Huang Liai	25,763,200 shares	100.00
	Director	TAIWAN FERTILIZER CO., LTD. Representative: Liu Guoyian		
	Director	TAIWAN FERTILIZER CO., LTD. Representative: Zhong Shunhua		
	Supervisor	TAIWAN FERTILIZER CO., LTD. Representative: Xu Shichang		
	President	Huang Liai		
TAIZHUANG ASSETS MANAGEMENT & DEVELOPMENT CO., LTD.	Chairman	TAIWAN FERTILIZER CO., LTD. Representative: Kang Hsinhong	5,500,000 shares	100.00
	Director	TAIWAN FERTILIZER CO., LTD. Representative: Chang Tsanglang		
	Director	TAIWAN FERTILIZER CO., LTD. Representative: Huang Ruizhen		
	Supervisor	TAIWAN FERTILIZER CO., LTD. Representative: Xu Shichang		
	President	Chang Tsanglang		
TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD.	Corporate representative of director	TAIZHUANG ASSETS MANAGEMENT & DEVELOPMENT CO., LTD. Representative: Chang Tsanglang	1,414,989 shares	100.00
TAIFER CHEMICAL INTERNATIONAL CO., LTD.	President	Li Zhikai	US\$ 1,333,494	100.00
PEIFENG TECHNOLOGY CO., LTD.	Chairman	TAIWAN FERTILIZER CO., LTD. Representative: Huang Yaohsing	40,000,000 shares	100.00
	Director	TAIWAN FERTILIZER CO., LTD. Representative: Luo Shihjih		
	Director	TAIWAN FERTILIZER CO., LTD. Representative: Chang Tsanglang		
	Supervisor	TAIWAN FERTILIZER CO., LTD. Representative: Huang Meiling		
	President	Huang Yaohsing		
TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	Corporate representative of director	TAIWAN FERTILIZER CO., LTD. Representative: Wang Chunxiong	10,965 shares	100.00
TR ELECTRONIC CHEMICAL CO., LTD.	Chairman	TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD Representative: Wang Chunxiong	10,965,000 shares	51.00
	Director	TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD Representative: Xie Wenxiong		

	Director	Jinqun International Corp. Representative: Zhao Jianliang		
	Director	TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD Representative: Xu Shichang		
	Supervisor	TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD Representative: Jian Zhaoren		
	President	Zhao Jianliang		
XUCHANG CHEMICAL TECHNOLOGY (KUNSHAN) COMPANY	Chairman	TR ELECTRONIC CHEMICAL CO., LTD. Representative: Wang Chunxiong	US\$ 10,965,000	51.00
	Director	TR ELECTRONIC CHEMICAL CO., LTD. Representative: Xie Wenxiong		
	Director	TR ELECTRONIC CHEMICAL CO., LTD. Representative: Zhao Jianliang		
	Director	TR ELECTRONIC CHEMICAL CO., LTD. Representative: Xu Shichang		
	Supervisor	TR ELECTRONIC CHEMICAL CO., LTD. Representative: Jian Zhaoren		
	President	Zhao Jianliang		
TAIFER INTERNATIONAL (SAMOA) CO., LTD.	Corporate representative of director	TAIWAN FERTILIZER CO., LTD. Representative: Chang Tsanglang	300 shares	100.00
TAIWAN FERTILIZER (XIAMEN) TRADING COMPANY	Executive director and president	TAIFER INTERNATIONAL (SAMOA) CO., LTD. Representative: Chang Tsanglang	No contribution yet	100.00
	Supervisor	TAIFER INTERNATIONAL (SAMOA) CO., LTD. Representative: Huang Meiling		
TAIFER (CAMBODIA) CO., LTD.	Chairman	TAIWAN FERTILIZER CO., LTD. Representative: Huang Yaohsing	1,000 shares	100.00
	Director	TAIWAN FERTILIZER CO., LTD. Representative: Luo Shihjih		
	Director	TAIWAN FERTILIZER CO., LTD. Representative: Zhuang Zhiying		
	President	Huang Yaohsing		

## 6. Operating status of affiliates

(Data in the table are provided based on the audited financial statements of the affiliates in 2017)

December 31, 2017

Unit: NT\$K

Company	Capital	Total property	Total liability	Net value	Operating revenue	Operating profit	Current profit/loss	EPS (dollar)
TAIWAN YES DEEP OCEAN WATER CO., LTD.	257,632	268,037	59,395	208,642	125,356	(30,619)	(48,989)	(1.90)
PEIFENG TECHNOLOGY CO., LTD.	400,000	397,919	0	397,919	0	(2,120)	(2,081)	(0.05)
TAIZHUANG ASSETS MANAGEMENT & DEVELOPMENT CO., LTD.	55,000	94,837	10,527	84,310	183,806	2,941	5,588	1.02
TAIFER INTERNATIONAL (SAMOA) GROUP CO., LTD.	42,797	54,183	33	54,150	0	(11)	4,002	-
TAIFER CHEMICAL INTERNATIONAL CO., LTD.	45,630	54,456	561	53,895	7,365	3,187	4,012	-
TAIFER (CAYMAN) INTERNATIONAL GROUP CO., LTD.	321,900	0	0	0	0	0	0	-
TAIFER INTERNATIONAL (SAMOA) CO., LTD.	9,348	8,928	0	8,928	0	0	0	-
TAIFER (CAMBODIA) CO., LTD.	40,052	28,596	913	27,683	7,081	1,318	1,759	-

Note 1: Operation of the TAIWAN FERTILIZER (XIAMEN) TRADING COMPANY has not begun.

Note 2: XUCHANG CHEMICAL TECHNOLOGY (KUNSHAN) COMPANY has actually stopped the operation. The liquidation proceedings are currently in progress. After the bankruptcy proceedings are complete, the holding company - TR ELECTRONIC CHEMICAL CO., LTD. - will wind up.

7. Affiliates providing endorsement/guarantee, loaning funds to other, and engaging in transaction of derivatives: (as of December 31, 2017) The 25th meeting of the 32nd board of directors on July 29, 2014 approved a guarantee of NT\$ 13.5 million for TAIZHUANG ASSETS MANAGEMENT & DEVELOPMENT CO., LTD. (hereinafter referred to as Taizhuang) to purchase oils. We still provide such guarantee to Taizhuang with the certificates of deposit as of December 31, 2017.

**(II) Consolidated financial report of affiliates:**

The entities that are required to be included in the combined financial statements of the Company as of and for the year ended December 31, 2017, under the "Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements

is included in the consolidated financial statements. Consequently, the Company does not prepare a separate set of combined financial statements.

**(III) Relationship report:** None

**II. Private placements of securities in the most recent year and as of the printing date of the annual report:** None

**III. Shares of the Company that are held or disposed by a subsidiary in the most recent year and as of the printing date of the annual report:** None

**IV. Other necessary descriptions:** None

**Chapter Nine: Any event which has a material impact on shareholders' equity or securities prices, as specified in Article 36, Paragraph 2, Subparagraph 2 of the Securities and Exchange Act, in the most recent year and as of the printing date of the annual report: None**



**TAIWAN FERTILIZER CO., LTD.**

**Chairman: Kang Hsinhong**





使用環保再生紙與大豆油墨印製，  
致力於珍惜資源與環境保護。

